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Central Eurasia
SUPPLEMENT

FBIS-SOV-95-082-S *28 April 1995*

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*Russia's Policy in Caucasus Analyzed

954F2104A Moscow NEZAVISIMAYA GAZETA in Russian 14 Apr 95 p 3

[Article by Amayak Oganesyan, president of the Association (Union) of Political Scientists of the Republic of Armenia and expert on the Transcaucasus republics of the Russian Federation State Duma, under the "Geopolitics" rubric: "Russia and the Transcaucasus: Moscow Must Overcome Its Guilt Complex for Its Imperial Past"]

[FBIS Translated Text] The disintegration of the Soviet Union and the gaining by the republics that composed it of state independence placed on the world political agenda the question of their geopolitical self-determination. If in the conditions of the existence of the Soviet Union, neither the separate republics nor, on the geographic level, the autonomous regions of the undivided country could have an independent geopolitical role, then since its downfall it has become obvious that the republics and regions (the Baltic, Central Asian, Transcaucasus, and others) **have to make a choice.**

What will it be? What kind of effect will it have on the correlation of forces in world politics? Will it lead to the weakening or the strengthening of the foreign policy position of Russia, which still lays claim to the role of an influential world power? The answers to these and their attendant questions depends in many ways on the character and direction of the changes in the internal political distribution of forces in the states of the new abroad. In the final analysis, the answer to the question whether these states will remain in the sphere of the political and economic interests of Russia, or whether they will end up drawn into another system of political-economic relations, will depend on what kind of forces will in the foreseeable future set the tone in the policy of the states of the new abroad.

Today, when the process of the reorientation of the republics and regions of the new abroad on a system of political and economic priorities alternative to the Russian is gaining momentum, on the sly and not infrequently with our tacit assent, it is time to sound the alarm. This is all the more appropriate in that, in contrast with Russia, which just cannot seem to throw off its in many ways artificially inflated guilt complex before its "younger brothers," the states bordering the former Union, which have no complexes, offer themselves as an alternative to the traditional Russian influence.

Especially revealing in this regard is the **policy of Turkey.** Both in the Central Asian and especially actively in the Transcaucasus region, Turkey strives to assert and then to expand its influence. This policy is undoubtedly aimed at turning the country, within a very short historical period, into a regional superpower, controlling the whole system of new political-economic relations in the Transcaucasus. Having closed off the passage of oil tankers through the Bosporus and the Dardenelles under the pretext of guaranteeing ecological purity, Turkey, with the support of the West, is endeavoring to deprive Russia of control over Caspian oil. On the other hand, emphasizing its devotion to the values of the Western way of life and democracy, it is skillfully blocking the participation in regional affairs of Iran, in every way possible stressing the fundamentalist character of that state's social order.

Turkey's efforts to strengthen itself in its new role gained new impetus against the backdrop of the conclusion on 20 September of last year by the Azerbaijani side of a treaty with a consortium of Western companies on the subject of joint development of the Caspian oil fields. It is not fortuitous that it was in exactly the time period that followed that Turkey declared with new force its claims to participation in the regulation of the Karabakh conflict on an equal basis with Russia and other members of the Minsk group of the OSCE [Organization for Security and Cooperation in Europe]....

In order to understand the nature of Turkey's geopolitical claims, it is worth turning to an analysis of materials of the scientific-practical seminar "Eurasia Today," which took place in September 1994 in Ankara, and in whose work President Suleyman Demirel took part. Timed to coincide with the third anniversary of the work of the all-Turkish information agency Development and Cooperation, this seminar, and especially the content of the speech at the opening ceremony by President Demirel, shed light on the character and goals of Turkish policy in the republics and regions of the former Soviet Union.

Noting that the creation of the Development and Cooperation agency coincided with the disintegration of the Soviet Union, Mr. Demirel anxiously asserted that although three years had already passed since that time, in Russian political life there was still no stability, and that certain Russian politicians still fostered hopes for a restoration of the Russian Empire. Evaluating the breakup of the Soviet Union as the event third in importance—after the First and Second World Wars—in world history, the president of Turkey declared literally the following: "Over the course of many years, we shared the fate of our brother countries under Russia's domination. The peoples who have been liberated from Russian domination, and especially their ruling circles, should prize the independence they have won."

Although in his speech Demirel tried to distance himself in words from the doctrine of pan-Turkism, declaring that "history has never known a period during which the Turkish community, which occupies an enormous geographic space, extending from the Adriatic to the China Sea, existed within the boundaries of a single state," his use of the concept of the "Turkish community" as applied to all Turkic peoples from the Adriatic to the China Sea, notwithstanding the differences in their destinies and historical experience, testifies absolutely unequivocally to the neo-pan-Turkic aspirations of the

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modern Turkish policy. It is especially notable in this sense that such a "unifying" approach in Demirel's speech was attended by an emphasis on Turkey's global responsibility for the fate of all Turkic peoples: "Turkey's interest in regional affairs proceeds from a common position and its global responsibility for the condition of the Turkish community."

On the basis of Demirel's discourse just cited, one may conclude that compromising, for understandable reasons, on the question of the realizability under the modern conditions of the doctrine of classical pan-Turkism, the current generation of Turkish politicians is formulating a modified variety, adapted to the newest tasks, of the same expansionist geopolitical conception... neo-pan-Turkism. In contrast to its classical precursor, the doctrine of neo-pan-Turkism does not set itself the task of the unification of the Turkic peoples into a single state, considering this impermissible from the point of view of the world community's opinion and of that of the regional elites, who have partaken of the delights of power. At the same time, neo-pan-Turkism retains its continuity with pan-Turkism, regarding as of paramount importance the concepts of a single "Turkish community" and the "global mission" of Turkey at its head.

Since the thesis of the existence of a single "Turkish community," headed de facto by Ankara, from the Adriatic to China, is moving out into the foreground, the question of the state-legal constitution of this "community"—in the form of a single Turkish state or as a union of states—plays a secondary role. So the distinction between pan-Turkism and neo-pan-Turkism is virtually leveled: Their racist and expansionist political essences turn out to be identical.

The growth of Turkey's expansionist aspirations in the Transcaucasus poses in a new way the problem of guaranteeing Russia's national interests in this strategically important region. In conditions where both in policy and on the level of the mass public consciousness in Azerbaijan, the orientation on economic and political integration with Turkey dominates (which, however, does not rule out, but rather presupposes, all possible support in Azerbaijan of those activists who demonstrate an inclination toward defense of Azerbaijani independence), the support of the social and political forces in Georgia and Armenia that are steadfastly oriented on Russia gains particular impetus.

Unfortunately, in Georgia the influence of the pro-Russian social and political forces is still insufficient. And, although during the course of the visit of 20-23 March of the Russian Federation minister of defense to Tbilisi, agreement was finally reached on the creation on the territory of Georgia of Russian military bases, insistent emphasis by the Georgian side on the conditionality of its concession in this question on the promise of P. Grachev to control the Abkhaz separatists does not give grounds to evaluate the agreements achieved as a manifestation of a new orientation of Tbilisi on strategic partnership with Russia. Since the failure in the fall of last year of negotiations conducted on the issue of military bases by Aleksandr Lalkin, a representative of the Defense Ministry of the Russian Federation, the success of Pavel Grachev should be considered only in the aspect of the realizability of the obligations that Moscow took upon itself to take Sukhumi in hand. What will happen if it is not able to do so? On the other hand, will partnership with Moscow not lose its attractiveness for Tbilisi if Moscow does after all succeed in returning Sukhumi to the bosom of Georgian control?

In those conditions, particular urgency is attached to the **position of Armenia**, which is turning out to be a sort of supporting structure, guaranteeing the inclusion of the Transcaucasus region in the sphere of gravity of Russian policy. Despite the fact that Armenia's new political elite, during the period of its accession to the heights of power, advanced certain slogans—the inevitability and desirability of "imperial" Russia's departure from the Transcaucasus; the construction of a single "Transcaucasian home" on the basis of a renunciation of the memory of the 1915 genocide of Armenians and of a historic reconciliation with Turkey; mutually profitable economic cooperation; and even rapprochement with Turkey as with a "democratic," "civilized," and "peace-loving" state, capable of constructively influencing the settling the Karabakh problem—these "innovations" were torn away by the public consciousness. They provoked a wave of reasoned criticism, which subsequently received actual substantiation from the anti-Armenian, anti-Karabakh, and pro-Azerbaijan positions taken by Turkey. The supplying of Baku with the latest weapons of Western manufacture dispersed any final illusions on this score.

Having undergone ideological and political bankruptcy, the ruling group in Armenia was nevertheless able to put a brave face on a sorry business, proclaiming through President Levon Ter-Petrosyan its intention, changing tack in midstream, strictly to adhere to a policy of pragmatism. This gave the opposition grounds to accuse the authorities of a "situational" approach to the formation of foreign policy, which, however, in no way influenced the self-confident political style of the president.

It is completely obvious that the temporary departure of the ruling group in Armenia from its initial positions was conditioned not so much by internally motivated political choices as by conditions unfavorable to the contemplated scenario. Faced with the necessity at least temporarily of changing its foreign policy course in view of the public's indignation and the domination of pro-Russian sentiments in the mass consciousness of Armenians in Armenia itself and in the diaspora, President Levon Ter-Petrosyan had to yield. In the conditions that had come about, that was the only way to retain power.

In order to understand how important this concession was in its implementation by politicians who only a year or two ago had been saying that "in politics there cannot

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be eternal friends (Russia) or eternal enemies (Turkey)," it is enough to recall the speech of the future president at a session of the Armenian parliament in December 1989. At that time, Levon Ter-Petrosyan, in almost the same expressions that were used in the speech by Demirel that I cited above, spoke about pan-Turkism as a supposedly definitively turned page in the history of Turkey—today a "civilized," "democratic," and "peace-loving" state.

Naturally, there are no such thing as such "chance coincidences" in the positions of political leaders at such a high level. Both Levon Ter-Petrosyan and Suleyman Demirel are politicians who, each in his own way, bearing in mind the specific mentalities of their respective peoples and the particularities of their historic past, are blazing a trail toward the establishment of a new world order. Within the framework of this "order," Russia, Turkey, and the Transcaucasus are assigned quite concrete roles. And the entire question today consists not in whether Ter-Petrosyan is prepared to lead Armenia toward the goals contemplated by the architects of the new world order, but in whether Russia will agree that Armenia, with Ter-Petrosyan at its head, should realize the scenario directed by it.

In the final analysis, this is how the question stands: Will Russia agree to renounce its positions in the Transcaucasus region in favor of Turkey? Will it agree to the realization of the plan of the change in geopolitical status of the Transcaucasus? If so, then this plan will most likely be realized, for the disposition of internal political forces in Armenia today is such, society there is so worn out and weakened by hunger, cold, and the pressure of the ruling regime (more than a million persons, that is, every third resident, have left Armenia's boundaries) that any decision could be dictated to it without any particular difficulty.

These arguments are in no way abstract, theoretical constructs, detached from real life. The recent visit to Yerevan of representatives of the Turkish community who visited the memorial to the victims of the 1915 genocide of Armenians testifies to a galvanization of efforts to create in the eyes of Armenians a new, favorable image of modern Turkish society. The action, widely advertised by Armenia's official mass media, "coincided" in time with active discussion of the prospect of laying an oil pipeline from Azerbaijan through Armenia to Nakhichevan and Turkey—to its Mediterranean ports. The West promises Armenia, in the event that an oil pipeline is laid across its territory, the possibility of control over the "pipeline stopcocks." On closer examination, the ephemerality of these promises is evident. In actual fact, Armenia, in the event that this plan is realized, would become a hostage to the pipeline, for the oil-greedy Western countries, if they are able in this matter to circumvent Russia, will hardly take "Armenian control" into account.

An analysis of external and internal political factors of the formation of the geopolitical role of this or that region of the Soviet Union demonstrates their interdependence. The foreign policy interests of the states of the region, forming in their totality its geopolitical role in the new conditions of post-Soviet development, are realized to be political subjects within the context of internal political struggle, organically tied in with the problems of rivalry between the traditional and the new elites, parties, movements, political groupings, and even individual authoritative figures oriented on a specific system of values and political attachments.

Unfortunately, the **Marxist paradigm**, which still weighs heavily on the consciousness of many Russian politicians and which dictates that subjective motives of political activity be considered secondary, harshly subordinated to the consideration of objective historical necessity, **hinders their understanding of the significance of the study of the internal political disposition in the states of the new abroad for the understanding of paths of the evolution of their foreign policy, and consequently of approaches to the determination of the geopolitical future of a given region.** And this is at the same time that in the West, an enormous amount of experience has been built up in working out concrete recommendations from the point of view of prospects of the advancement of the geopolitical interests of the interested Western states, while in the states of the new abroad itself, the public, broad strata of the population are still inclined—in some places by inertia, in other places for weightier reasons—to regard Russia's policy as a fundamental factor, and they strive to "interpret" it as applied to their own tasks, to feel out its direction, bias, in order to determine their own perspective, to make their well-founded and motivated choice.

Today, the vagueness of Russia's interests in the countries of the new abroad, and, as a consequence of this vagueness, the impossibility of calculating the sympathies and antipathies toward political subjects acting in the internal political arena of these states, is turning into just about the main source of headache for their population. The lack of clarity, purposefulness, and tendentiousness in Russian foreign policy brings the community of the republics of the new abroad not a sense of greater freedom for their own actions, as it might seem at first glance, but, on the contrary, a state of complete disorientation, paralyzing the ability to influence policy at the top. In these conditions, the thin layer of the pro-Western political elite that formed on the wave of the destruction of the Union gains unlimited freedom in determining the geopolitical priorities of the post-Soviet republics.

It is completely obvious that the preservation of such a state of affairs could inflict serious damage on the national interests of Russia. In farming out definite foreign policy priorities in the republics of the new abroad to elites of pro-Western orientation and depriving oneself of the possibility of being guided by the broad strata of the public in these republics, which are on the whole pro-Russian in orientation, Russia's leadership risks finding

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itself unable by political means constructively and proceeding from its own national interests to influence their geopolitical self-determination in the context of the political realities that formed after the disintegration of the Soviet Union. The formation of a new policy of serious study of internal political forces, on active and multifaceted cooperation with currents and politicians of a pro-Russian orientation in the republics of the new abroad—without distinction as to their position in the internal political situation, their affiliation with power or the opposition, or their political views—allows the Russian leadership to avoid situations where the general geopolitical interests of Russia and the republics of the new abroad could find themselves hostages to the will and the political predilections of the ruling elite.

Fears that such a policy could arouse censure on the part of the international community are far-fetched and do not bear serious criticism. In all civilized states, the democratic norm of broad and free contacts—of cooperation both with official and with nongovernmental organizations of this or that country—is universally recognized. During their foreign trips, including those that are official, the leaders of the Western countries also meet with opposition circles, regarding the possibility of such contacts as proof of the democratic nature of the social order of the given country, and of an acknowledged respectful attitude in that country toward heterodoxy.

There is no reasonable basis for depriving Russia of such a civilized foundation on which to build its mutual relations with the republics of the new abroad. **Russia has already matured sufficiently so that, freeing itself, like Germany, from its guilt complex for its own totalitarian past, it can acquire a democratic style of behavior in its mutual relations with the countries of the new abroad:** not to do itself out of broad contacts both with the ruling and the opposition circles, of conducting a flexible policy, called upon to rule out usurpation by this or that political grouping—ruling or opposition—of the possibility singlehandedly, over the heads of the broad public, of their country, to determine the policy in regard to Russia. Too much is at stake; relations between the states of the new abroad and Russia are too important for the fates of all the peoples of the former Soviet Union not to exclude once and for all the possibility of their turning into hostages of the political predilections of a narrow group of people.

*Construction of Baltic, Black Sea Oil Collector Debated

954E0868A Moscow KOMMERSANT-DAILY in Russian 14 Apr 95 p 4

[Article by Anna Baneva and Aleksandr Volynets, under the rubric "CIS Energy Problems": "Minsk and Kiev Do Not Have the Capability Turn 'Friendship' Around"]

[FBIS Translated Text] **The supply of fuel—first of all oil—to Belarus and Ukraine has lately become not so much an economic as a political problem. So it is not accidental that we see in the nationalist-minded circles of Belarusian opposition an intense interest in the project of building on the territory of the republic a Baltic-Black Sea [BBS] oil collector (to put it simply, a connecting pipe between two pipeline systems). The point of this idea is to replace the Russian oil sold to Ukraine and Belarus with Iraqi, Iranian, and... West European oil. In the opinion of Russian experts, the idea is purely speculative and pursues the goal of forcing Russia into another round of price concessions, as well as raising the rating of leaders of political movements actively exploiting the nationalist idea.**

The Oil Collector Idea: The Dream

The idea to build a Baltic-Black Sea oil collector, which would supply Lithuania, Latvia, Belarus, and Ukraine with oil and petroleum products at world prices, emerged three years ago. It envisages the transportation of Iraqi and Iranian oil through the territory of Turkey, with a transfer over the Black Sea to Odessa and subsequent re-export to Europe. At the same time, the plan was to deliver oil from Europe to Belarus through the port of Ventspils. The scheme also envisaged partial redirection of the "Friendship" pipeline's flow. According to Stanislav Gusak, an expert with the Belarusian People's Front [BNF] shadow cabinet of ministers, the republic needs the collector in order to both destroy Russia's monopoly standing as fuel supplier and to provide for full utilization of the oil-refining capacities in Novopolotsk and Mozyr.

More detailed comments on the project came from Vladimir Kutuzov, chief of the strategic planning department of the Belarusian Belnefteproduct state concern. He said that the idea of building the Baltic-Black Sea oil collector does not have a particular author as such. According to him, Ukraine is currently in the process of designing construction of a pipeline on the territory of Turkey. The Baltic direction of the integrated pipeline system, on the other hand, began to develop at the very beginning of the 1990's. Whether Belarus will participate in building the Baltic-Black Sea collector is unknown at this point.

Nevertheless, Belarus already has placed an order with the Kiev AO [joint-stock company] Oil Transportation Institute for a technical and economic substantiation [TES], for which it paid an advance in the amount of 167 million Belarusian rubles in last November's prices. Altogether, the TES work will cost 1.5 billion Belarusian rubles (as of March 1995). The Kiev institute is designing for Belarus a project in both the southern and northern direction, although the Baltic and Ukrainian projects can also develop autonomously. The total cost of the project is estimated at $2.75 billion. According to Mr. Kutuzov, enabling a reverse flow of oil on the segment from Ventspils to Novopolotsk using the existing "friendship" pipeline will require modifications that will cost another $200 million.

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The Oil Collector Idea: The Reality

Russian specialists in the field of oil transportation believe that the idea of building the Baltic-Black Sea oil collector is hardly possible to implement in practice. In the opinion of Russian AO Transneft experts, there are no technical obstacles preventing the building of new segments of the pipeline and modifying the existing ones. To do this, however, will require more than making a decision on a large-scale construction project. The main point is the question of the project's financing and its economic effectiveness. According to preliminary estimates, to implement this idea, Ukraine and Belarus will have to find almost $3 billion in hard currency. And this is at the time when neither republic is unable to pull out of the economic crisis; on top of this, Ukraine owes Russia close to $2 billion for fuel deliveries, and Belarus—close to $500 million.

It is obvious that the republics will have to search for money in the international capital market. However, the presence of Iraqi and Iranian factors in the project (in the southern version, the project is predicated on deliveries of Iraqi and Iranian oil) constitutes a big minus in terms of investment attractiveness. The aforementioned countries have an established reputation in the world as sources of instability. One can unequivocally predict that the European states, first and foremost Germany, will react negatively to the prospect of replacing Russian oil with Iraqi and Iranian. They are not enthusiastic about attempts to return European countries into the embrace of the Middle East.

From the purely economic standpoint, it is doubtful that Iraqi and Iranian oil would be competitive in the European and CIS markets. In particular, the two transfers needed to get it over the Black Sea will raise its price considerably. Besides, oil will have to be pumped mainly through "Friendship's" southern spur to Hungary, the Czech Republic, and Slovakia. These countries, however, intend to build a pipeline that will bring them oil from the Northern Sea. In short, Eastern oil's competitiveness is extremely questionable.

As to the collector's northern segment—Ventspils-Novopolotsk—it is unclear which oil BNF representatives are counting on. If they mean Northern Sea oil, it is already practically all divided between oil-refining enterprises in West European countries—Denmark, Netherlands, and Germany—and on top of this, in the future some of it will also go to the countries of East Europe. Moreover, the modifications required on the current pipeline to overcome the countercurrent flow of oil will be truly daunting.

Map of pipeline routes envisaged to bring together the Baltic-Black Sea collector

In all probability, stirring up the idea of the Baltic-Black Sea oil collector is aimed not so much at concrete implementation of the project as at gaining additional votes for opposition parties, which is important on the threshold of upcoming elections—after all, in the past none of the representatives of the nationalist-minded opposition in these countries came up with a single original economic idea supporting their radical political programs.

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Economic Issues

*Kazmin to Sit in at Federal Assembly Review of Economic Laws

95P50103A Moscow ROSSIYSKAYA GAZETA in Russian 19 Apr 95 p 5

[Directive of the Government of the Russian Federation of 7 April 1995, No 446-d, Moscow]

[FBIS Translated Text] In a change to point 2 of the Russian Federation Government directive of 26 October 1994 No 1701-d (Russian Federation Collected Legislation, 1994 No 28, p 2999; No 30, p 3153) to designate Russian Federation Deputy Finance Minister Andrey Ilich Kazmin as the official representative of the Russian Federation Government during the review by the chambers of the Federal Assembly of the following draft federal laws:

"On introducing amendments and additions to the Russian Federation Law 'On the basis of the tax system in the Russian Federation';"

"On introducing amendments and additions to the Russian Federation Law 'On taxes on the profit of enterprises and organizations';"

"On introducing amendments and additions to the Russian Federation Law 'On the value-added tax';"

"On introducing amendments to the Russian Federation Law 'On excise duties';"

"On introducing amendments and additions to the Russian Federation Law 'On the tax on enterprise property';"

[Signed] Chairman of the Russian Federation Government V. Chernomyrdin

*Gazprom Chairman on Current State, Future of Company

954E0871A Moscow TRUD in Russian 19 Apr 95 p 2

[Article by Rem Vyakhirev, chairman of the board of the RAO Gazprom: "Gazprom—A People's Company"]

[FBIS Translated Text] ***The first meeting of stockholders of one of the mightiest industrial-financial complexes—the Russian Joint-Stock Company [RAO] Gazprom—is to be held in May. Rem Vyakhirev, chairman of the board of the RAO Gazprom, tells TRUD readers about the current state of the largest gas company in the world and its future prospects.***

The Russian Joint-Stock Company Gazprom was founded in February 1993 in keeping with special normative acts of the president, the Supreme Soviet, and the Government of the Russian Federation. The main tasks of this huge industrial-financial complex are to ensure the effective functioning and development of the national Integrated Gas Supply System and deliver gas to countries of the near and far abroad through interstate and intergovernment agreements.

Today the RAO Gazprom is one of the largest gas companies in the world. It accounts for 94 percent of Russian and 22 percent of world gas output. Along with the production and delivery of gas to consumers, the company is also engaged in gas condensate and oil production, comprehensive processing of hydrocarbon raw materials, and production of a broad range of products. It conducts in-house supplementary exploration of the fields on its books and complete exploitation drilling.

Among company components are machine-building, repair, start-up-and-adjustment enterprises, construction organizations, and research and design institutes. Given the absence in the country of a developed market of the respective services, such a diversified structure permits the company to ensure normal functioning of gas facilities.

The RAO Gazprom combines in its integrated technological and organizational structure 39 enterprises located in different regions of the country, which provide an uninterrupted cycle: from well drilling to delivery of natural gas to consumers. The assets of all these enterprises are the company's property. In addition, it owns the controlling share of stock of its 25 subsidiary joint-stock companies, which are mainly engaged in service associated with production. RAO Gazprom enterprises, including subsidiary joint-stock companies, employ 330,000 persons.

The company currently has in operation 88 gas and gas condensate fields; it has obtained licenses to develop 81 fields with industrial reserves of gas estimated at 33.7 trillion cubic meters, which comprises 68.5 percent of all Russia's reserves. The aggregate length of gas mains together with laterals is more than 141,000 km. The company operates 234 compressor stations with a rated power of 38.2 million kw. In order to ensure reliable gas supply, especially during the peak-usage winter period, the company operates and continues to build a network of underground gas storage facilities.

The company is working on shifting automotive, rail, and air transportation, as well as agricultural vehicles, to natural gas-powered operation. This saves oil-based motor fuel, which is in extremely short supply, and improves the ecological state of the environment. There are currently 191 automotive compressor stations for filling gas cylinders operating on the territory of Russia, with an aggregate annual capacity of 2 billion cubic meters of natural gas. Full utilization of their capacities would permit 85,000 automobiles daily to be filled with compressed gas; however, the real figure is considerably lower. It should be mentioned that despite the obvious economic and ecological advantages of using gas as motor fuel, for reasons beyond our control progress in this area, which is very topical for the national economy, is extremely slow.

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Against the background of a continuing general decline of production in Russia, the gas industry is operating in a sufficiently stable manner, ensuring gas deliveries for both the domestic market and export. Of course, the difficult economic situation in the country in the transition to market relations inevitably has a negative impact on our activities. In 1994 production of gas at the RAO Gazprom enterprises amounted to 570.7 billion cubic meters, which is 7 billion cubic meters below the preceding year's level. This is caused mainly by the decline in gas consumption in Russia (by 31 billion cubic meters over the year). On the other hand, export increased by 5.2 billion cubic meters. In our opinion, this situation with respect to gas production is temporary. There are preconditions indicating that in the nearest future it will begin to steadily rise.

Last year the company also produced 7.9 million tonnes of gas condensate, 2.1 million tonnes of sulfur, 392,000 tonnes of automotive gasoline, 950,000 tonnes of diesel fuel, 626,000 tonnes of condensed gas, 3.7 million cubic meters of helium, and other products of processing.

Last year was far from easy for us. We have encountered a number of difficulties in our ongoing operations with respect to implementation of production and social programs, foremost among which was the problem of nonpayments. As of 1 April of this year, consumers in Russia owed us 11.7 trillion rubles [R], Ukraine—R10.3 trillion, Belarus—R2.1 trillion, Moldova—R1.2 trillion, and the Baltic countries—0.6 trillion. The aggregate debt of all consumers comprises R25.6 trillion.

Such a situation, which is actually steadily worsening, keeps us from bringing facilities on line as scheduled, paying wages on time in most areas, settling accounts with the budget, and paying suppliers and construction organizations. All this, despite the outwardly bright picture with respect to gas delivery to consumers, undermines the foundations of the normal functioning of the Integrated Gas Supply System. This is fraught with negative consequences not only for our economic activities but for the entire national economy.

Obviously, we understand that the nonpayments crisis is a common problem whose resolution will take some time. But in order to hold on and survive in these conditions, we are taking certain steps on our own—extensively using mutual clearing of accounts with suppliers of equipment and materials, trying to use bills of exchange and treasury bonds, actively searching for solvent consumers, resorting to foreign bank loans, and other approaches.

At the same time we have tightened control over judicious use of financial and materials and technical resources at our enterprises; we have approved a list of the most important construction projects that will get priority financing; and we are using stricter conservation measures with respect to all types of resources. We are implementing further centralization of financial resources.

We have done considerable work in the area of converting the RAO Gazprom to joint-stock holding, which is being carried out in keeping with established procedures set forth by the decisions of highest bodies of state authority and administration.

The restricted subscription for stock to be distributed among the company's employees and veterans has been completed. It attracted the participation of 282,000 persons, who purchased 15 percent of all stock. Closed voucher auctions have been held in 61 regions in Russia, at which 33.9 percent of stock was sold for privatization vouchers. The winners of these auctions are 747,000 citizens of republics, krays, and oblasts, on the territory of which our company's assets are located. Thus **more than 1 million Russian citizens have purchased 11.4 billion shares of our company's stock, that is, essentially became co-owners.**

According to the results of the auction, a new single nominal price was set for the stock—R10 per share. Therefore, the number of shares for which each participant in the restricted subscription had signed up for has been increased 100-fold. A special joint-stock company has been set up to keep up the registry of gas industry stockholders. Direct work with stockholders will be carried out by a depository which is a component part of the Gazprombank. At the beginning of April 104 depository offices for stockholder services were opened in 54 regions of the country. On 1 February the depositories began signing agreements with stockholders to open personal stock deposit accounts and issuing them with statements from these accounts and the registry. These documents certify stock ownership rights.

The company bought out 10 percent of its stock for privatization vouchers for subsequent resale. The proceeds from the sale are to be channeled into development of new fields. Together with the Clineworth Benson investment bank (Great Britain) we have put together a prospectus, which has been sent to foreign buyers. The auditing company Price Waterhouse from Great Britain has been asked to prepare the report on the company's financial results, work on which is almost complete.

At the end of May we are going to hold our first stockholders meeting. This is a rather difficult task, especially its organizational aspect. The agenda of the upcoming meeting will include a report and discussion on the results of the company's activities over the past year; deciding on the size of dividends to be paid according the results of the year; making changes and additions to the RAO Gazprom charter; and discussing a number of other issues. The announcement regarding the time, place, and procedures for the meeting will soon be published in the press and has been distributed to the company's enterprises and organizations. Since we have more than a million stockholders, in keeping with the company's charter the board of directors decided that at the meeting, one stockholder will represent at least 8 million voting shares.

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Stockholders may obtain all information regarding the meeting's agenda at Gazprombank's regional depositories and at RAO Gazprom enterprises.

Articles are occasionally published in the mass media that create a distorted perception in the eyes of the public of the RAO Gazprom and its economic policy. They occasionally question the expediency and logic of the RAO Gazprom's existence and accuse it of monopolism. Sometimes the opinion appears in the press that Gazprom only pursues its own corporate interests at the expense of the national economy as a whole.

However, the RAO Gazprom has demonstrated in deed that it is a reliable, viable, and effectively functioning market structure in the far-from-simple economic situation of Russia. Against the background of overall production decline, our company has managed to maintain practically the same level of gas production and carry out the planned volume of deliveries even during the peak winter period. Also quite importantly, sales of natural gas in foreign markets comprise one of the main sources of foreign currency receipts for the state budget.

Today the RAO Gazprom assumes the full extent of responsibility for reliable delivery of gas to consumers. Thanks to the centralized system of management of the Integrated Gas Supply System, we can quickly restructure the flow of gas and direct it to regions experiencing a fuel shortage (during sharp temperature drops, emergency situations, disruptions in deliveries of reserve fuel—boiler oil and coal). If the RAO Gazprom is broken up, it will be impossible to accomplish such tasks. Numerous small monopolists would spring up, each concerned with their own interests. Such a situation could have unforetold ruinous consequences for the entire national economy.

The current structure of the domestic gas industry made it possible to preserve this sector for the country. Stable development of the RAO Gazprom is in the interests not only of its stockholders but of the entire national economy of Russia. We look to the future with confidence. The basis of it is the largest resource base in the world and the company's huge production and scientific-technical potential, which enables it to provide the required volume of deliveries of natural gas for many years to come. However, in the current economic conditions the predicted level of production will depend not so much on our capabilities as on the demand in the domestic and foreign markets.

According to forecasts, in 2010 gas production at Gazprom enterprises will reach 810-830 billion cubic meters. The increase in production will initially come from the areas in West Siberia where we currently work. But the main sources in the future will be first of all the fields on the Yamal peninsula and the shelf zone of the Kara and Barents seas, which are located in extreme natural and climatic conditions of the Far North. This presents new and more difficult tasks for our company, and requires major investment and the willingness to undertake a certain financial risk.

The RAO Gazprom has obtained a license to develop huge fields on the Yamal peninsula. We are already conducting preparation work there: drilling wells and building highway and rail links, a sea terminal, and other components of industrial infrastructure. A considerable part of the investment we plan to direct into the development of these fields will go into construction of the Yamal-West Europe gas pipeline, which will be more than 4,000 km long and will traverse the territory of Russia, Belarus, and Poland to the German border. We have a considerable potential that enables us to react flexibly to the expected increase in demand for gas.

Despite planned large-scale energy conservation measures, the domestic demand for natural gas is expected to substantially increase in the future and by the year 2010 will increase by 30-35 percent as compared to 1993. The main areas where consumption of natural gas will increase will be its more intensive use in agriculture and the municipal services sector, in electric power and heat generation, in transportation—in the form of motor fuel, and in regions undergoing gasification.

In 1994 the RAO Gazprom exported 184.6 billion cubic meters of natural gas, of which 78.7 billion went to near abroad countries. It is expected that consumption of gas in Europe in the year 2010 will reach 630-660 billion cubic meters, which is 240-270 billion cubic meters more than in 1992.

The European countries' gas market is completely divided among a limited number of companies, and until 1991 Gazprom did not have direct access to end consumers. Its current foreign economic strategy envisages participation in gas deliveries to Europe not only to the point of delivery on the border but also directly to consumers in importer countries, thus earning additional profits in order to compensate for the production and transportation costs of the gas.

For this purpose, in a number of countries we have set up the necessary structures in the form of trading houses, joint-stock companies, and joint enterprises. Selling some of our natural gas through them, as well as carrying out trade operations that involve purchases of material and technical resources for the needs of the domestic gas industry, moves our relations with foreign partners to a qualitative new level. These relations are quite civilized and are based strictly on the economic interests of the cooperating parties.

The RAO Gazprom intends to continue to develop cooperation with European and all other countries of the world on an equal and mutually profitable basis, and is willing to discuss any business proposals from foreign companies and firms on the subject of field development, construction of gas-and-chemical complexes and gas transportation systems, organizing the production in Russia of modern equipment, means of automation, and new material with superior technical and economic qualities.

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***Several Reasons for Russia's Financial Woes Detailed**

Russian Money Cached in Foreign Banks

954E0863A Moscow ROSSIYSKAYA GAZETA in Russian 13 Apr 95 pp 1, 7

[Article by Vladimir Klimov: "The Case of the Lost Billions"]

[FBIS Translated Text] **There are many ways of hiding money abroad, and not much has been done to recover it.**

Everyone remembers how persistent and resolute we were when we asked the International Monetary Fund for credit. When the long-awaited 6 billion dollars finally reached us with various stipulations, everyone was overjoyed.

It is possible that this was a genuine victory and that it will stop the dramatic decline of the ruble exchange rate and turn investment in production into a reality, but just think of how wonderful life would be if the state could have 10 times as many dollars. This is not a mythical sum. The figure is cited by experts when they discuss the leaks of Russian capital abroad.

Exports for a Kopeck and Imports for a Dollar

Financial agencies in Lipetsk Oblast were short large sums of foreign currency not long ago. It is true that traders in Lipetsk were engaging in questionable practices: They were importing goods at overstated prices. Their foreign partners, however, were paid the correct price, while the remainder (which could be quite substantial) stayed in Western banks.

The foreign currency "earned" in this manner is quickly transferred from the personal accounts of Russian businessmen in West European banks to third world countries and so-called off-shore zones, mainly Cyprus, the Bahamas, and Malta. Dummy corporations are set up there with the aid of criminal organizations, allowing businessmen to evade taxes and earn additional profits.

One of the administrators of a Russian commercial entity bought two firms in the Bahamas and Cyprus. He concluded several contracts with them on behalf of a Russian enterprise he also owned. As a result of this illegal operation, he was able to conceal foreign currency abroad in excess of 120,000 dollars.

That is how wooden Russian rubles grow into lush stands of American greenbacks when they are planted in the miraculous field known as the off-shore zone.

Without an "Okay" from Customs

Today it seems improper to say that our country's border is under lock and key. The main reason is probably that we still do not know the exact location of our border. The second is that today's resourceful traders cannot be compared with the romantic smugglers of the past. Today's traffickers have learned to pick all of the border locks without making any excessive noise.

Once again, the actions of certain people in Lipetsk Oblast can be cited as an example of the skillful selection of the right skeleton-keys. The administrators of some oblast export enterprises sold their technical products abroad, earned a huge profit in foreign currency, and naturally kept it in bank accounts on the other side of the border.

I will not jeopardize the current investigation by naming these enterprises now, but the specialists who analyzed the actions of their resourceful administrators have described the precise mechanism by which operations of this kind are committed. In other words, they have named the customs skeleton-keys the dealers used.

False information about the export enterprise's foreign currency accounts in authorized banks was entered on customs freight declarations. Customs inspectors did not verify the existence of these accounts, and this simplified matters for the swindlers: The proceeds could then be deposited in the accounts of middlemen abroad.

Here is another method of deception: The documents submitted to customs inspectors for the authorization of export contracts indicate that the transactions will be barter operations. In reality, however, the exported goods are sold for foreign currency, and then part of this money is used to buy something for the reciprocal shipments, but most of the proceeds, as you have guessed, stay on that side of the border.

A third method of fooling the state is also effective. The export enterprise concludes contracts with terms of payment far in excess of 180 days, which is contrary to our foreign currency laws. The enterprise's resulting foreign incurred debt is then written off in three years as part of the enterprise's own overhead costs. But where is the money for the contracted transaction? You are absolutely right—it is abroad. More than 20 enterprises in Lipetsk Oblast failed to submit documents to authorized banks last year to corroborate the receipt of goods and services in accordance with the terms of contracts with foreign firms for a total of 1.2 million dollars.

Obviously, the customs service does not authorize these unlawful transactions, but the customs service also lacks opportunities for the careful monitoring of the quantity and quality of exported goods. As a result of machinations of this kind, the exporter can keep up to 30 percent of the unrecorded receipts, part or all of which can remain abroad.

Intrigues connected with product quality are most common in exports of timber and wood products. The most valuable types of wood (cedar, ash, and others) are exported as inferior types, and logs for sawing—and other purchased lumber—are exported as the enterprise's own products, eligible for special customs privileges.

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The "Krona" joint venture took advantage of these privileges. Members of its staff bought commercial timber from various suppliers in Siberia and the Far East and resold it in Japan. Between January 1992 and March 1993 they exported more than 55,000 cubic meters of rough logs with a contracted value of over 6 million dollars.

Of course, timber is not the only road to riches for ambitious traders. They took "hydrocarbon residue"—production waste—across the border at the Ussuriysk customs checkpoint, obviously at a discount. When the "waste" was inspected, the customs officials found that licensed propane-butane gas was being sent abroad. The most interesting and disturbing aspect of the operation was this: The "traders" had filled out the fictitious customs declaration in the name of the enterprise where they worked—the Primorskraygaz Production Association—and specialists from the Ussuriysk Chamber of Commerce and Industry had approved it.

Russia Is Also Being Sold for Rubles

The next time someone says that foreigners have no interest in Russia and do not want to invest money in it, do not believe him. They have the strongest wish to grab a piece of the Russian pie without spending too much money in the process. This can be done if the expensive dollar is exchanged for the cheap ruble in the right way.

This was the goal of some foreign businessmen who were operating in the three Baltic republics. They planned and conducted transfer operations for the acquisition of Russian rubles in exchange for dollars without going through the RF Central Bank.

The operation was quite simple: After the transfer contract had been signed, the seller of the rubles would open an account in a Russian commercial bank for the foreign buyer and transfer the agreed sum to that account. A similar dollar account in a foreign bank would be opened for the seller of the rubles. At first the accounts are frozen. The subsequently unblocked accounts are a signal that the transaction has been completed.

The reality of these transactions was confirmed by the reported intention to conduct a series of these operations through Tsentrobank (Volgodonsk, Rostov, telex 178431, Account 02467495, Branch 2464567856, Correspondent Account 800161056, in the name of ESPACK LIMERTE) and through the Italy's Bergamo Bank.

The Russian commercial bank reaffirmed its consent to participate in the operations. The first transaction would involve a transfer of just under 70 billion rubles. The whole amount of the transfer would be 300 billion rubles. People in the Western business community believe that the partners in these transactions represented Italian-American Mafia groups, whose ultimate goal was the acquisition of stock in enterprises in the Russian military-industrial complex, as well as parcels of land and other Russian real estate.

Hidden in Banks and Real Estate

Oh, how difficult it is to find the dollars that have been hidden abroad. The main reason is that banks are good at keeping secrets, and not only in Switzerland, where most of the illegal gains have traditionally gone. In Hungary, for example, there is around a billion dollars in the accounts of Russian citizens in the Central European Bank.

Sometimes the deposits are enormous. In one case a Russian citizen wanted to deposit 500,000 dollars in cash. This amazed even the blase bank personnel. Who are the Russians that travel around with suitcases full of dollars? The bank will not say. After all, clients like these are a godsend.

A second reason for the difficulty of finding the dollars that disappear abroad is that the paper dollars are frequently exchanged for houses, hotels, and parcels of land—in short, for real estate. Our special services have been informed of purchases of real estate in Spain, France, England, and other countries by the new Russians. They have paid 2 million pounds (in cash) for real estate in just four neighborhoods in London.

Clever Western businessmen quickly figured out a new way of making money. They realized that the Russians would not have to travel abroad to buy property if this service were available in Russia.

They made the service available. The English RCA firm and other Western firms—Trans-European Marketing and Club la Costa—specialize in sales of so-called "time-shares" in Russia, offering property rights to real estate abroad for limited periods of time.

Is this illegal? The RF Law "On Foreign Currency Regulation and Currency Control" stipulates that the sellers of foreign real estate to Russians must make certain that the buyers have the appropriate licenses from the Central Bank. Besides this, if the foreign firm is paid in cash (and this is usually the case), it must determine the exact source of the foreign currency.

Needless to say, the Western firms do not do either of these. In view of the fact that the cost of the "time-shares" is quite high (over 30,000 dollars in the average transaction), we can imagine the magnitude of the uncontrollable leak of foreign currency.

Representatives of these Western firms act covertly because they know they are breaking our laws. The RCA firm, for example, does not advertise its services and prefers to work with potential clients on a selective and strictly personal basis. Members of the firm's staff use personal contacts to learn the names of individuals in Moscow with an interest in buying "time-shares." Sales presentations are held for them in the conference room of the Slavyanskaya-Radisson Hotel.

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At these gatherings the potential clients are shown videos, are told how the "time-share" system works, and are informed of its advantages for the buyer.

The executives of RCA have given their Moscow office a high performance rating. Just imagine! During the year 30 percent of the people who attended the presentations (which are held five times a week) signed contracts. The flow of foreign currency out of Russia in this case was not just a trickle, but a mighty river.

Alas, There Will Be No Epilogue

How we would love to end each of these detective stories with the statement that the criminals have been punished and the state has recovered its money, but there are no happy endings. According to the International Monetary Fund, the illegal flow of foreign currency from Russia since the beginning of the 1980s has amounted to 50 billion dollars. Around 15 billion dollars ended up in accounts abroad just in the first 10 months of last year.

How can the foreign currency be returned to our country? This is not simply a job for law enforcement agencies. Acting Chairman Tatyana Paramonova of the Central Bank sent a letter to banks in Belgium and Luxembourg in February to request them "not to allow violations of the law" of Russia on currency control. The Central Bank wants the accounts that were opened illegally by Russians to be closed.

The State Duma has its own proposal. The Duma Council submitted a draft decree "On the Declaration of an Amnesty for Individuals Who Have Committed Unlawful Acts Connected with the Disposition of Financial Assets Abroad" to the deputies for their consideration. Blessed are those who believe, but I do not think that the new Russians will be in any hurry to surrender their capital after the publication of this kind of decree.

Some of the members of our nouveau riche have incalculable wealth. In a private conversation, a member of our law enforcement system told me that the financial worth of eight people in Russia passed the billion-dollar mark long ago.

In another conversation I was told that Mayor Yuriy Luzhkov of Moscow is now one of the richest people in the world. I apologize to Yuriy Mikhaylovich if this report maligns his honor and dignity, but these rumors are making the rounds, and the only way to stop them is to do something that is done in civilized countries—to publish lists of the wealthiest people in our country and the sources of their wealth.

When will the era of underground millionaires like Koreyko come to an end? Why do we not know the names of our new heroes? Why do we often have to rely on guesses instead of reliable facts?

We will get answers to these and other questions, and there will be an epilogue to the story of the lost billions.

Lax Control Over Funds Allocated from Budget

954E0863B Moscow ROSSIYSKAYA GAZETA in Russian 14 Apr 95 pp 1, 3

[Article by Vyacheslav Goncharov: "The Budget Ruble Is Being Circulated by Private Individuals"]

[FBIS Translated Text] **"Where are the billions of rubles in state resources going? Is there any financial control in Russia?"—from a letter to the president by a concerned minister.**

There is no question that the events of recent weeks in the mining region of Maritime Kray require not only immediate solutions, but also the correct interpretation, especially the speech about the use of federal budget subsidies. It has already been established that part of the state support for the Primorskugol joint-stock company was not used for the specified purpose, to say the least. In fact, it was used for unspecified purposes.

The very first inspections in Maritime Kray, however, also revealed something else. The kray administration was partly responsible for the private circulation of federal budget subsidies. At the end of last year, for example, one-fourth of the 100 billion rubles the Ministry of Finance issued to the "Dalenergo" joint-stock company—which, incidentally, owed the miners 112 billion—was immediately deposited in the account of the "Dalvemo" joint venture in the form of credits for the purchase of...chicken drumsticks. A contract was signed at the same time for the delivery of 250,000 tonnes of coal from China to Maritime Kray. It is unlikely that these actions were taken without the knowledge and consent of the kray administration, and it is even possible that they were taken on its express orders. Meanwhile, our power engineering workers are not being paid for their coal, and the miners have had to wait a long time for their wages.

Today the procuracy in Maritime Kray is trying to find out where the lost billions went. The guilty parties probably will be found and will receive the punishment they deserve, but who can guarantee that this kind of manipulation of budget funds will not cause social upheavals in other parts of Russia? It is unlikely that anyone can answer this direct question today on the regional level or in government agencies. Regrettably, my assumption is based on the well-known fact that money from the budget is making the rounds of commercial banks and financial structures almost everywhere. This has already become commonplace.

I probably can say without any fear of error that some branches and even whole regions will use any pretext to get a "fat piece" of the federal budget pie and then put the money into circulation right away. We can ask the traditional question in these cases: Why is this being overlooked by the appropriate oversight agencies? After all, we have a Ministry of Finance and an Accounting Center, we have a new Federal Treasury, and we also have a whole group of other diversified services to

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protect the interests of the state. Unfortunately, as Minister of Finance V. Panskov recently informed President B. Yeltsin: "Never in Russia's history has the state's control over its own finances been so weak."

We seem to have hit rock-bottom, as the saying goes. Is it possible that the minister of finance is exaggerating the problem in an effort to convince the president of the need to augment his staff of investigators? The facts and figures V. Panskov cites in this letter are the best answer to this question. In the past year alone, the Auditing Administration of the Ministry of Finance discovered thousands of cases of illegal expenditures of state funds, embezzlement, the underpayment of taxes and duties, and other abuses costing the state more than a trillion rubles. Sadly enough, almost half of the violations and abuses were committed by state enterprises, organizations, and institutions. Here are just a few examples from V. Panskov's letter.

Around 143 billion rubles of the federal budget allocations for deliveries of goods to the Far North "went astray." (Was that the reason for all of the delayed shipments last year?) The auditors reported that many enterprises and organizations had used the money for various other purposes, including the acquisition of foreign currency, passenger cars, and even...liquor and tobacco products. This seems to be the latest craze—to have a round of drinks on the budget! The head of the administration in Tomsk Oblast took the liberty of setting aside several billion rubles from the funds to support deliveries of goods to the Far North, and this money ended up in deposit accounts in local commercial banks. In the Koryak Autonomous Okrug the "northern" money was used to buy an airplane for the administration, and in the Nenetsk okrug it covered the cost of business trips to the center of Russia.

The Federal Employment Service has not been idle either. It deposited 145.3 billion rubles in accounts in commercial banks.

The Volga branch of the Energiya Scientific Production Association transferred a billion rubles from the budget funds for contracted work to the account of the "Erad" limited-liability partnership, established as a subsidiary of the Samara Motor-Building Association imeni M. Frunze. All of the work was actually performed by the Association imeni Frunze. Wages in the amount of 753 million rubles for items supposedly manufactured by the partnership were received in cash from the partnership coffers and distributed among the administrative personnel of the Association imeni Frunze. Some of the lead specialists at the Energiya Scientific-Production Association also got a piece of the federal budget pie.

Local budgets are also being literally plundered. In the last two years, for example, administrators in Kemerovo Oblast spent almost 20 billion rubles on the construction of a restricted hotel, on the pretext that it was an important civil defense project, and on salary increases for bureaucrats and retired legislative assembly deputies. A large part of the money that was intended for the social support of the population fell into the hands of middlemen and speculators. In Dagestan budget funds were paid out generously in the form of subsidies for agricultural products that were supposedly contributed to state supplies. In Akushinskiy Rayon the Kolkhoz imeni S. Ordzhonikidze was credited with 1,764,500,000 rubles as part of this scheme and was paid 823.5 million, while 150 million immediately fell into the hands of private individuals.

There are so many of these examples. Paraphrasing a sentence in the minister of finance's message to the president, we could say that never in Russia's history have state budget funds been squandered in this way, without any control whatsoever. I think I am justified in saying that the absence of accountability is also the main reason for this problem. As V. Panskov reported, 3,729 cases resulting in combined losses of 257 billion rubles were turned over to investigative agencies last year, and criminal proceedings have already been instituted in more than 2,000 of these cases, but various types of abuses have cost the state more than a trillion rubles—i.e., four times as much as the sum under investigation. Furthermore, most of the people who are punished in these cases are at the bottom of the criminal hierarchy. One example is the biggest case of the misuse of budget funds in our country under the cover of the once widely publicized "Harvest-90" program.

In 1991 a credit in the amount of 300 million U.S. dollars was obtained from the Swiss "Noga" firm for the completion of the "Harvest-90" program. The money was used to buy consumer goods abroad for sale through the Tsentrosoyuz [Central Union of Consumer Cooperatives] network. The proceeds—around 2.5 billion rubles—had to be turned over to the state budget within a month. What happened? The goods were sold, but the money began to be circulated in commercial channels.

In 1992 Tsentrosoyuz was allocated another 1.5 billion in the form of an interest-free budget loan for what was supposed to be the efficient conclusion of a transfer operation. The money was supposed to end up in local unions, but Tsentrosoyuz deposited it in a private commercial bank, which then distributed the money to enterprises and organizations of the consumer cooperative network at interest of 15-25 percent. Furthermore, Tsentrosoyuz charged all of the recipients of the loan funds a fee. All of them had to transfer a tidy sum to Moscow, supposedly to cover the contributions they owed to centralized funds—200 million rubles in all. This money, however, also ended up in commercial banks. The bail-out loan was then plundered in the same way on the local level.

This was probably the first incident of the misuse of budget funds in particularly large amounts. What happened? Were any of the initiators of the commercial circulation of state funds punished? No. Not one of them was held accountable. In fact, the circulation of state

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funds in commercial structures developed and flourished in the country with the blessing of Chairman V. Yermakov of the Russian Tsentrosoyuz.

Everyone agrees, however, that the protection of each ruble of state funds is crucial today. In contrast to earlier budgets, the budget that was approved recently is extremely austere, and each violation of budget regulations could affect the future of reform and every aspect of our own lives. There are still forces in our country that will take advantage of any mistake by the authorities and any emergency to reverse the development of Russia by playing the same old miners' card. It may be a good thing that the minister of finance notified the president personally of the state of affairs in the use of budget funds. It is time for a show of strength, as the saying goes.

But let us return to the miners. The state has always supported the people in this most courageous and difficult profession, even after the issuance of stock in the mines, and despite the austere budget, but it is not insured yet against financial intrigues with subsidies and direct allocations from the federal budget. We can only hope that the case of the lost billions in the mining region of Maritime Kray will be the last incident of its kind in Russia.

Tax Police Lack Means To Nab Tax Offenders

954E0863C Moscow ROSSIYSKAYA GAZETA in Russian 14 Apr 95 p 5

[Article by Georgiy Poltavchenko, chief of directorate of Tax Police Department (St. Petersburg): "Does It Pay To Be Honest?"]

[FBIS Translated Text] **As long as the tax police have no rights, they will have difficulty patching up the holes in the state pocket.**

...The Pharisees sent their followers to Jesus to ask: "Give us your ruling on this: Are we or are we not permitted to pay taxes to Caesar?"

He said, "You hypocrites, why are you trying to trick me? Render unto Caesar what is due to Caesar...."

The incident reported by the evangelist Matthew, a former publican—i.e., a tax collector—relates directly to the work of the tax police. Caesar represents the state today, and we are the publicans, securing the collection of taxes for budgets on different levels.

How effective have we been? I will cite just two figures. The whole process of privatization in St. Petersburg yielded just over 50 billion rubles for the treasury. Our directorate of the Tax Police Department collected over 45 billion for the state budget and extra-budgetary funds just last year, counting foreign currency converted at the exchange rate of the Russian Central Bank.

There are no yellowed pages in the history of the young Tax Police yet, but there is good reason for concern. The criminalization of the tax sphere has become an objective reality. There were more than 8,000 reported crimes and violations in Russia in 1994 in connection with the concealment of large and particularly large amounts of taxable income. Russian raw materials and capital are still disappearing across the border. According to the data of our foreign colleagues, the number of bank accounts opened by Russian citizens who cannot be called conscientious taxpayers is rising. Criminal and market structures are merging: Many enterprises are not registered with the state tax inspectorates and are essentially doing business illegally.

The leaders in this field are retail and procurement firms. The "Torgovyy Dom Energiya" joint-stock company of the closed type, for example, sold household appliances through a network of stores in 14 of the city's neighborhoods. A simultaneous inspection of all of these locations confirmed the concealment of over 700 million rubles in income.

The "Inta" firm, which is now under investigation, bought so much McCormick vodka and liquor in America that it took seven ships to carry all of this freight. The amount of foreign currency that was transferred abroad in this transaction was large enough to satisfy many of the needs of the St. Petersburg municipal economy, but the firm "forgot" to pay the taxes on the sale of this "ocean of bottled beverages."

The Innovation Bank, the "Inta" firm's guarantor, has ceased to exist, and it is possible that the generous credits, including credits in foreign currency, it extended to "Inta" and several other firms were one of the reasons. "Enterprises" of this kind, registered under the names of dummy directors or fictitious individuals, are usually established solely for the purpose of applying for large loans and then disappearing.

St. Petersburg is not only our window to Europe, but also a trade gate to Europe. Around 20 percent of all of the Russian Federation's exports and over 35 percent of its imports pass through the city's customs checkpoints each year. That is why we have been active in establishing cooperation between the municipal tax police and the northwestern customs agencies. International contacts are also being established gradually. High-ranking officials from the Swedish national police force were in St. Petersburg recently. Sweden will be one of the first states with which the RF Government will sign an agreement on cooperation and the exchange of information in the fight against violations of tax laws.

Tax crimes are committed not only in Russia, but also in neighboring Sweden and in prosperous America. It is true that the attitude toward these offenses is completely different there. Treasurer of the United States Catalina Villalpando, whose signature graces the American dollar bills issued between December 1989 and April 1994, was sentenced by a court to four months in prison for tax evasion. After this she will be on probation for three years and will also have to perform 290 hours of community service.

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The court was lenient in its treatment of Catalina. The prosecution asked for five years in prison and a fine of 250,000 dollars for each of the three crimes with which she was charged. Therefore, the former treasurer of the United States could have spent 15 years behind bars. Chilean law stipulates the same term—15 years—for tax crimes, and the "count" begins at 5 years there. Five years is the maximum term for the concealment of particularly large amounts of taxable income, however, in the Criminal Code of the Russian Federation.

In most of the Western countries the penalty for defrauding the government, and this is a good description for tax evasion, is much more severe than in our country. In the previously mentioned United States, which is held up as a model of democracy, one taxpayer was sentenced to 500 years in prison, and this is not an oddity or an entry in the Guinness Book of Records, but an actual legal precedent.

Of course, we could argue that the length of the prison term is not the important thing. In our opinion, it would be best if there were no need at all for this kind of sentence. The important thing is the public attitude toward tax violations. In the developed countries a simple fact has become an axiom: The nonpayment of taxes by certain individuals or by firms and corporations increases the tax burden of all the rest. That is why the term "honest taxpayer," which still sounds somewhat strange to us, is commonly used in the West, corroborating the precept that honesty is the best policy.

In our own fatherland, on the other hand, it appears that every effort is being made to cultivate the opposite opinion. We often hear the allegation, sometimes in the press, that the tax police are crippling business, and that businessmen are fine human beings and intelligent people who would not hurt a fly. Why should they go to prison?

It is true that they have not murdered anyone. They have simply decided to shortchange the budget by billions of rubles. This means that "emergency aid" will not get to your mother or grandmother in time: After all, taxes represent 60-70 percent of all budget income. If there is no revenue, there is no hope of free medicine, subsidized school lunches, municipal housing, and decent hospitals. It would not be a bad idea to view the "unfortunate" tax evader from this vantage point now and then. Then we will see that he is just robbing us.

We have been accumulating experience in this field for three years, but the forces opposing us have also learned a great deal. Whereas we occasionally encountered flagrant resistance and unconcealed defiance in the beginning, the methods of our opponents are more subtle today. Using the services of high-priced attorneys, they are trying to fit their unlawful actions into a legal framework. We are still losing many battles in the courts. According to the records of violations of tax laws, criminal proceedings were instituted in around 2,500 cases last year in the Russian Federation. There were just over 200 convictions in the cases that went to court.

One of the reasons is that we simply conduct the preliminary investigations and then turn the cases over to investigators from the procuracy or from internal affairs agencies, and they already have a heavy workload. Furthermore, they do not always have the necessary experience to investigate tax crimes. The result is a deluge of dismissals of criminal cases on various grounds, including some that are not completely valid.

Experience suggests that our tax police agencies must be endowed with the power to conduct full-scale investigations and to order expert analyses of tax records and other means of criminological support. This could be followed by the establishment of the kind of network of tax courts and arbitration boards that exists in many other countries. It is in the tax sphere that billions of rubles and millions of dollars are at stake, and it is here that the interests of unscrupulous businessmen, of various organized crime groups, and of the overlords of the shadow economy converge and blend. When we stir up these wasp's nests, we are often cursed and threatened, and sometimes we even have to dodge bullets. We feel that the state, represented by the tax police, should also go into these battles fully armed.

Not everyone in ancient Judaea liked the publicans. After all, they were collecting taxes for the Roman emperor. Our tax police are securing the collection of revenue for the treasury of their own country and their own city. On the advice of the hero of that television commercial, feel the difference.

*Statistics Committee Data on 1994 Foreign Investment

954E0881A Moscow IZVESTIYA (Finansovyye Izvestiya Supplement) in Russian No 26, 13 Apr 95 p 2

[Article by Yelena Fedorova, head of a department of the State Committee for Statistics of Russia: "Half of All the Foreign Investments in 1994 Were Shared by Five Firms"]

[FBIS Translated Text] The economy of Russia received in the whole of 1994 only $1.05 billion and 89 billion rubles [R] of foreign investments (not counting commercial banks and enterprise privatization), which, converted into the average quarterly rate of the ruble against the dollar, constitutes approximately R3 trillion or less than 0.5 percent of the gross domestic product.

	Dollars, millions	As % of total
Fuel industry	521.7	49.5
Construction	103	9.8
Trade and public catering	59	5.6
Machine-building and metal working	43.4	4.1

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	Dollars, millions	As % of total
Transport and communications	42.9	4.1
Other industrial processes	36.4	3.5
Ferrous metallurgy	28.6	2.7
Research and research services	25.9	2.5
Food industry	25	2.4

Direct investments (that is, those conferring the right to participate in the management of an enterprise and constituting more than 10 percent of the enterprise's nominal capital) accounted for $548.8 million or 52 percent of total investments. Portfolio investments (purchase of securities constituting less than 10 percent of the enterprise's nominal capital and not conferring the right to participate in management of the enterprise) constituted $512,000 or less than 1 percent of total investments. Miscellaneous investments (credit obtained from the direct investor and trade credit pertain here, in the main) accounted for approximately 48 percent of total investments ($504 million). Direct investments constitute the bulk of the ruble investments (reinvested profit, in fact)—R73 billion or 82 percent.

It should be mentioned that the State Committee for Statistics of Russia does not have reliable information on the purchase by foreign investors of the shares of privatized enterprises. The most varied figures show up in the press and in the government—from $500 million to $4 billion. An expert estimate shows that these figures are close to $1 billion.

The branches of the economy where the speediest returns may be obtained with low initial expenditure and also the traditional raw material branches were of the greatest interest to foreign investors in 1994.

At the same time, on the other hand, research and research services are among the dozen most attractive branches of the economy for Western investors. This may be regarded as a positive feature, yet it simultaneously puts us on our guard since in exchange for relatively small investments which, on the whole, make no great waves a foreign investor frequently gains access to national scientific developments, which, with their skillful use, will bring him sizable profits.

The year's results confirm the trend toward the concentration of foreign capital in Russia that emerged in the first and second quarters. In the branches that are of the most interest for Western investors this is manifested as follows: One firm in each branch accounts for 47 percent of investments in transport and communications, 66 percent of investments in construction, 80 percent of investments in ferrous metallurgy, 84 percent of investments in fuel industry, and 58 percent of investments in other industrial processes. The total share of these firms yields 54 percent, that is, just five firms constituting less than 1 percent of the total number of enterprises with foreign investments obtained half the foreign investments in 1994.

Ruble investments in 1994 were made primarily in trade and public catering (21.5 percent of the total or R19.1 billion), in food industry (16.6 percent or R14.8 billion), construction (12.8 percent or R11.7 billion), finances, credit, insurance, and pensions (12.5 percent or R11.1 billion), and research and research services (10.3 percent or R9.2 billion), that is, rubles were invested, in the main, in the spheres in which there is a swift turnover of money.

The following regions were for foreign investors the most attractive in 1994:

	Dollars, millions	% of total
Arkhangelsk Oblast	438.6	41.6
Moscow	189	17.9
Tyumen Oblast	110.4	10.5
St. Petersburg	36.4	3.5
Irkutsk Oblast	34.2	3.2
Republic of Komi	31.1	3
Krasnodar Kray	20	1.9
Tomsk Oblast	19.6	1.9
Republic of Tatarstan	19.3	1.8
Khabarovsk Kray	16.9	1.6

Whereas Moscow and St. Petersburg are of interest to Western investors primarily as capital centers, Arkhangelsk and Tyumen Oblasts are of interest as raw material regions. In Arkhangelsk Oblast fuel industry accounted for 99.4 percent of total investments, and in Tyumen Oblast construction accounted for 76.9 percent of investments here. It is interesting also that whereas in the majority of oblasts direct investments account for 75 to 100 percent, in Arkhangelsk Oblast this indicator constitutes only 10 percent, and miscellaneous investments, credit obtained not from than the direct investor in this case, account for the other 90 percent.

We note merely the 18th place of Kaliningrad Oblast ($5.4 million), although the creation of the Yantar free economic zone anticipated, aside from all else, a significant influx of foreign investments also.

On the whole, it may be affirmed that at this time the influx of foreign capital into the economy of Russia is by world standards extremely negligible and fails to correspond to the country's investment requirements. The government is adopting measures which, it is anticipated, will signify an increase in the receipts of foreign investments, but if the bulk of them go, as before, into the raw material branches, Russia's revival on a postindustrial basis will hardly be possible. Merely the fact that half of all investments was made in fuel industry testifies that Western investors are inclined to regard Russia primarily as a source of cheap raw material.

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*Government Approves Documents on Investment Leasing

954E0865A Moscow KOMMERSANT-DAILY in Russian 14 Apr 95 p 3

[Article by Vladislav Borodulin: "Meeting of the Government; New Chapter in Corporate Law Approved"]

[FBIS Translated Text] **Yesterday's meeting of the government confirmed a long-observed rule—the fewer branch ministers participate in a government discussion on general economic themes, the more fruitful it is. Yesterday, within less than two hours members of the cabinet succeeded in approving a package of documents on regulation of licensing activity—an absolutely new chapter in national corporate law. The government was able to come to an even quicker agreement regarding a federal program developed by the MVD [Ministry of Internal Affairs] in the fight against the narcotics business (KOMMERSANT-DAILY will carry information on this in tomorrow's issue).**

It is not surprising in general that the Russian authorities have been paying concentrated attention recently to the subject of developing licensing operations. The investment crisis is compelling them to be energetic in the search for new methods of stimulating business activity. This is confirmed by a package of three documents submitted by Deputy Minister of Economics Vladimir Kossov—the law "On Licensing," the decree "On the Development of Leasing in Investment Activity," and a provisional statute on leasing. According to his words, the creation of a legal base and certain support on the part of the state can make leasing operations one of the most dynamic types of services. World experience, in his opinion, also speaks in its favor: Almost one-fourth of the investment projects in the West are implemented with the aid of leasing. Starting capital, at the same time, can be three times lower than in traditional types of investing.

There was no one who disagreed with these more general theses. The whole discussion turned on details having principal significance—the taxation of leasing operations, customs payments in leasing imported equipment, bookkeeping calculations of property being leased, and the need for leasing firms to receive special licenses. Chairman Oleg Soskovets would not have been himself had he not given the floor first of all to the charming representative of Tveruniversalbank, Aleksandra Kozyreva, vice president of the bank, who declared that banks are interested in the development of licensing operations, inasmuch as they make it possible to secure credits more reliably. However, for the development of leasing it is necessary to equalize it with traditional extensions of investment credits in order to reduce the tax burden on companies somewhat. In exactly the same way, in his opinion, special licensing of licensing companies should not be introduced.

Vladimir Goloshchapov, chairman of the Association of Licensing Companies, thinks that it is necessary to change the customs legislation in effect and to exempt licensing companies from payment of customs duties in leasing imported equipment. Duties, in his opinion, should be paid only in the event of a redemption of equipment by the lease recipient, and only at the residual value. However, Valeriy Kruglikov, deputy chairman of the GTK [State Customs Committee], spoke out against a sharp change in the customs system. He thinks that replacement of the currently operating system in such cases of deferred customs payments with full payment exemption will lead to the complete breakdown of customs duties in the sector of technological equipment and contradict the interests, for example, of Russian machine tool production.

The first deputy prime minister did not hesitate long in selecting the next speaker: This again turned out to be a woman, Ms. Andriasova, chairperson of the Europe-Asia Center Bank. She observed, not without innuendo, that there already are leasing companies in Russia, but there is no leasing. The scales of leasing operations are really meager—only 10 billion rubles in taxes from such activity were transferred to the budget in the last year. But in regard to everything else she was in agreement with her colleagues: Liberalization of customs legislation and the investment system of taxation is necessary.

It will be clear after a week whether the practical workers succeeded in persuading the bureaucrats of the Ministry of Finance and the GTK. In any case, Oleg Soskovets insisted on such a short period for the revision of all of the submitted documents.

[begin boxed item] Leasing is the medium-term and long-term renting of machines and equipment that usually belong to a specialized leasing company and are leased to a user who afterwards has an opportunity to redeem the leased equipment. At the same time, the Ministry of Economics differentiates two types of leasing—financial and operational. Transactions belonging to financial leasing meet the following conditions: The type and make of equipment is determined by the lessee, not by the leasing company; the leasing company purchases leasing property only on the condition of its being let out on a lease; the sum of leasing payments approximates the full value of the property being leased. Operational leasing is short-term rental of any kind of equipment. [end boxed item]

*Survey Indicates Slow Down in Inflation

954E0861A Moscow IZVESTIYA (Finansovyye Izvestiya Supplement) in Russian No 24, 6 Apr 95 p 8

[Review by Sergey Tsukhlo, chief of the state of the market surveys laboratory of the Institute of Economic Problems of the Transition Period: "Inflation Expectations in Industry Are Beginning To Subside"]

[FBIS Translated Text] Monthly economic surveys of enterprise directors show that in the near future wholesale prices for industrial output will start rising at a slower rate.

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The share of "prices will rise" replies comprised 81 percent in March, as compared to 87 percent in January (the highest of the past 12 months). Price rises are expected to slow down in all sectors except machine-building. Last month, however, machine-building plants predicted the most modest price increase of all. In March the lowest inflationary expectations were registered in the woodworking industry. State enterprises continue to forecast relatively modest price increases as compared to joint-stock companies and privately owned companies.

Producers' inflationary expectations currently have little correlation with the demand for the output they produce. Analysis shows that 80 percent of enterprises dealing with normal (by their own appraisal) demand forecast price increases, but also 79 percent of those experiencing "below normal" demand. In July 1994, when enterprises were clearly aware of demand limitations and had relatively low inflationary expectations, the differences in pricing policy were obvious. Normal demand then prompted 71 percent of enterprises to forecast price increases, and only 55 percent low demand.

Currently demand affects only production volume forecasts. With normal demand, enterprises forecast growth in production (the balance of expectations, +8 percent). When demand is insufficient, expectation is predominantly that of shrinking production (-20 percent).

Overall, the trend in forecasts for changes in the production volume remains negative. Since October 1994 the total balance of expectations declined by 13 percentage points. In March a positive balance was registered only in the petrochemical industry (+13 percent). In response to declining demand and increased inventories, woodworking enterprises for the first time in seven months began to predict reductions in output (-11 percent). The most intensive decline in production is expected in light industry (-38 percent in March, -44 percent in February).

In enterprises' estimates, in March the real rate of production decline was lower than that in February, but still did not reach the level of January 1995. The lowest intensity of production decline was registered in that month.

Estimates of production volume also returned to the January level. Actually, this indicator declined by only four points in February. Sectoral estimates show declining satisfaction in the petrochemical industry (31 points over four months) and the construction material industry (62 points). Stabilization of own production was considered satisfactory by 27 percent of enterprises in March (22 percent in February).

The actual rise of wholesale prices in March slowed down again. The main contribution to this process was made by woodworking industry enterprises, where the balance of price changes dropped to +71 percent (+100 in January) and the food processing industry (+80 percent after +91 percent in January). Prices in the state sector rise consistently slower than those for the products of privatized enterprises (+66 and +79 percent, respectively).

After two months of decline, demand estimates rose by two points in March. By sector, improvement in demand was registered in machine-building and the construction material industry. Nevertheless, these sectors also continue to register the lowest satisfaction with demand. There is no difference between the estimates of state enterprises and joint-stock companies.

The stable decline in excess inventories of the finished product, registered since December 1994, once again resulted in minor shortages. This situation was registered for the first time in three years of surveys in October 1994. Excess inventories declined in all sectors except light industry. The shortage of products in warehouses was persistent over the past seven months only in the food processing industry. Woodworking and light industry enterprises, which have also reported insufficient inventories since last September, over the past few months have been experiencing difficulties with distribution and now consider their inventories excessive.

*Finance Ministry on Stability of Treasury Bond Market

954F2079A Moscow SEGODNYA in Russian 8 Apr 95 p 2

[Article by A. Bekker: "Ministry of Finance: No Problems on State Debt Market"]

[FBIS Translated Text] **Preparations for the Circulation of New Securities**

At yesterday's press conference Bella Zlatkis, head of the Department of Securities of the Ministry of Finance, declared that "we have no problem regarding where to get money." She had in mind the stability of the GKO [government short-term bonds] market and the high and stable interest which was demonstrated by the successful distribution of the last nine issues of those securities. Now there is 21 trillion rubles [R] worth of GKOs in circulation. Mrs. Zlatkis stated that though the first quarter was characterized "by unfavorable circumstances marked by a high rate of inflation, the Ministry of Finance succeeded in following a strategy of borrowing funds at the lowest possible prices."

Mrs. Zlatkis described the KO (treasury bond) market as "highly speculative." In accordance with an agreement with the IMF, these securities will be withdrawn from circulation as of 1 March of next year since they do not meet market requirements. The department head noted that "this paper, however, has worked well and therefore, changing profitability standards, we shall preserve it." Mrs. Zlatkis defined the market of the shares of privatized enterprises as having become stale as compared with segments of the market which service the state debt. Some elements of crisis are associated with transfer to the monetary stage of privatization for which

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the market infrastructure proved to be too backward—the technology of share sales is at a 1990 level.

According to information furnished by Mrs. Zlatkis, the Ministry of Finance is ready to issue new types of securities: federal bonds. On Monday documents were forwarded to the government for the issuance of a gold certificate and the term of its circulation was set at three years. The certificate is tied to the cost of a kilogram of gold. After appearance of the government decree, it is planned that the certificate will go into circulation by 15 May. The issuance of another security with a two-year term of circulation and a quarterly floating return determined by profitability of three-month GKO is anticipated in one month. Finally, according to Mrs. Zlatkis, "the continuing mistrust of the ruble will persist," and the Ministry of Finance will issue a security denominated in foreign currency. This will have to be done by about 1 August, even though that does not appeal to Mrs. Zlatkis: "One does not want to credit the American government." All of the indicated securities will be amalgamated by the fact that they are of medium term, with coupons, and are not on paper. This means that the securities will be maintained in the form of an electronic entry by a single depository (MMVB [Moscow Interbank Currency Market] or the Central Bank). In addition to that they will also be linked by the single accounting system.

*Capital Investment in 1994 Economy Reported

954E0885A Moscow DELOVOY MIR in Russian No 14, 10-16 Apr 95 p 35

[Report prepared by the Center for Economic Market Conditions of the RF Government: "The Investment Complex in the Russian Economy in 1994"]

[FBIS Translated Text] *The amount of capital investment from all sources of financing that was spent by enterprises and organizations of all forms of ownership totaled 106.2 trillion rubles in 1994. The amount of capital investment in comparable prices declined by 26 percent compared to 1993, and by 35 percent compared with 1992.*

The decentralization of the investment process continues under conditions of limited centralized financial resources. The share of non-state forms of ownership is increasing as a result of significant institutional transformations and, first and foremost, privatization and the issue of stock. The role of intrinsic sources of financing for the realization of the plans of enterprises is rising, and the share of budgetary financing is decreasing. The investment burdens on the state budget are decreasing as a consequence of this, and the sphere of state influence and regulation of the structural restructuring of the economy is narrowing.

The decreased role of the distributive functions of the state has been accompanied by increased regulation of the investment sphere through legal standards. A number of laws were issued as early as the end of 1993 on questions of taxation in the investment sphere, which were aimed at stimulating the investment activity of enterprises and citizens.

The fundamental laws "Investment Activity in the RSFSR" and "Foreign Investments in the RSFSR" were adopted on the legal field of the Soviet economy, and consequently do not reflect the legal norms for the regulation of the capital markets that are the principal source of investments. The necessity has thus arisen of developing and issuing a series of edicts by the President of the Russian Federation and decrees by the government that open up new approaches to the organization and revival of the investment process. The pursuit of reforms and the tightening of financial policy predetermined the appearance of new qualitative features in the economy in 1994: a decline in the rate of inflation in the investment and consumer markets, the achievement of positive diminishing interest rates at banks in certain periods, and the appearance of a trend toward the increased inclination of the population toward saving.

A whole set of problems impeding further economic transformations in the country has meanwhile gotten worse, while the unstable financial-economic situation and inadequate legal base have conditioned a worsening of the investment climate and a decrease in capital investment. Financial institutions (banks, insurance companies, investment funds etc.), under conditions of quite high inflation and a drop in production, are directing available funds toward long-term investment with extreme caution. Credit investments in the economy, according to data from the Central Bank of the Russian Federation, were 82.9 trillion rubles as of 1 December 1994, including 79.1 trillion rubles of short-term (95.4 percent) and 3.8 trillion of long-term (4.6 percent of the amount of credit).

Many enterprises are experiencing an acute shortage of internal working capital which, taking into account the high level of credit rates, is forcing them in a number of cases to use resources that had been allocated for investment purposes to pay off credit taken out previously or to pay wages. A redistribution of monetary resources from the sphere of accumulation to the sphere of consumption is occurring thereby.

The extant structure of the Russian economy, with its large proportionate share of capital-intensive industries for which low turnover of capital and slow adaptation to market conditions are typical, is aggravating the prevailing situation even more.

The share of capital investment in the gross domestic product is about 17 percent, which does not provide for the necessary modernization and updating of outmoded fixed capital, as well as overcoming the technological backwardness of the production base.

The decline in the amounts of capital investment is occurring unevenly and is leading to marked structural

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changes. The share of funds directed toward the non-production sphere, first and foremost housing, is increasing.

Capital investment for the construction of facilities in the **non-production** sphere totaled 46.5 trillion rubles, or a decrease of 14 percent compared to 1993.

The significantly smaller decline in the amounts of capital investment in the non-production sphere, and primarily housing construction, was caused by the state measures to support housing construction within the framework of the selective structural policy being implemented and the steady demand for housing on the part of the better-of segments of the population. Some 38.5 million square meters of overall space in residential buildings, or 92 percent of the 1993 level, was put into service in 1994. The start-up of housing using the funds of the population was seven million square meters in 1994, an increase of 26 percent versus the prior year. The share of individual housing construction out of the total volume of housing start-ups increased from 11.8 percent in 1992 to 18.2 percent in 1994 therein.

Capital investment in the construction of facilities in the **production sphere** totaled 59.6 trillion rubles, or a decline of 35 percent in relation to 1993 and 47 percent to 1992.

Capital investment **in industry** declined by half in 1994 compared to 1992. The most significant reduction in capital investment in those years (by 3—4 times) was observed in the chemical and timber industries, the building-materials industry and light industry.

It also declined to a lesser extent in the fuel and power sectors, where the amounts of capital investment were largely determined by the high capital requirements and the steady demand for the products of those sectors.

The amount of capital investment in agriculture has declined by almost four times, and construction by three times, over the last two years.

The share of capital investments in the production sphere declined from 65 to 56 percent as a consequence of the more significant decline in the volume of capital investment in that sphere.

The greatest share of **production investments** (more than a third) in 1992-94 went to the development of the fuel and power complex. The share of machine building, on whose development the formation of the assets of fixed capital depends, decreased by 1.5 times over that period.

The decline in investments in the production sphere owing to the insufficiency of financial resources is preserving both the technological backwardness of production and the physically depreciated equipment of industry. The **physical depreciation of fixed production capital** for industry as a whole was 41.1 percent as of 1 January 1994. The greatest degree of depreciation fell to the share of the active elements of fixed capital, at 56.5 percent. Some 42 percent of the equipment across Russia has an average age of more than 10 years, and for certain sectors, including base sectors, that value is significantly higher: 54 percent for electric power, 52 percent for ferrous metallurgy, and 49 percent for machine building.

A change in the structure of capital investments **according to the sources of financing** is occurring as a result of the decentralization of the investment process, which envisages the more widespread utilization of such sources of financing as the funds of the enterprises themselves, funds from extrabudgetary investment allocations, and funds from local budgets and foreign investments. The share of budgetary sources of financing decreased from 31 percent in 1992 to 24 percent in 1994. The share of centralized extrabudgetary investment allocations in the overall amount of capital investment went from 2.9 percent in 1992 to 5.9 percent in 1994, and the funds of individual builders from 2.6 percent in 1993 to 4.1 percent in 1994. The primary source of financing for capital construction was the internal funds of enterprises, which increased by 4.7 percentage points from 1993 to 1994 and was 64.5 percent of the overall amount of capital investment.

The share of the capital investment of enterprises and organizations of state and municipal **forms of ownership** decreased from 81 percent of the overall amount of capital investment in 1992 to 42 percent in 1994 as a result of institutional changes.

Depreciation deductions should become a substantial source of financing for the production investments of enterprises. Depreciation policy is a constituent element of the overall scientific and technical policy of the state. The state, by establishing depreciation standards and the procedure for deducting and using them, regulates the pace and nature of the reproduction and renewal of fixed capital. The role of depreciation deductions has declined appreciably in recent years. The rapid rise in prices, not commensurate with the growth in the value of fixed capital in 1991-93, has led to a sharp reduction in depreciation deductions, which have become inadequate even for the simple reproduction of fixed capital. An annual revaluation of fixed capital (as of 1 January 1994 and 1995) would make it possible to increase considerably the magnitude of depreciation deductions in the production sphere.

A considerable portion of the production capacity of enterprises is not being utilized under conditions of cutbacks in production volumes, which is creating conditions for the painless, accelerated write-off of outmoded and physically and functionally obsolete equipment. This process could also be stimulated using differentiated tax rates on property, depending on the depreciation of the fixed capital.

The extent of construction remains extraordinarily broad, as in prior years. No serious attempts are being made to concentrate financial, material and labor resources on the construction of the most important facilities.

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The **federal investment** program for the start-up of production capacity has not been fulfilled for several years now. Only 193 of the 652 facilities that were projected for operational start-up in 1993 were put into service (122 entirely and 71 partially). Its fulfillment for facilities financed out of budgetary funds was 42 percent. The federal program was 31 percent fulfilled in 1994, including 33 percent for facilities that were financed out of budgetary funds. The remaining facilities added to the amount of unfinished construction, which even before that considerably exceeded the annual volume of capital investment.

The amount of **foreign investment** in hard currency in 1994, including direct (giving the investor the right to participate in enterprise management), portfolio (not giving the right to participate in enterprise management), and other (primarily trade credits) investment in the country's economy (without counting data on investment in commercial banks), totaled 1.05 billion U.S. dollars. Foreign ruble investments in the country's economy totaled 89 billion rubles, or 3.2 percent of the total amount of foreign investment. The total volume of foreign investment in the Russian economy declined by almost three times in 1994 compared to 1993, and totaled less than three percent of the overall amount of capital investment according to center estimates.

The investment climate (the aggregate of political, socio-economic, financial, organizational-legal, geographical and other factors), despite improvements in the legal-standards base for non-state investments, continues to remain unfavorable. The weak influx of direct foreign investments in the Russian economy is explained by the unstable political and economic climate in the country, the high rates of inflation, and the lack of real guarantees for private foreign investors. The **outflow of monetary resources** (potential investments) from Russia is several times greater than their influx. A large portion of foreign investments, under conditions of limited internal demand, is oriented toward the development of sectors in the producing industry, primarily oil and gas, whose products enjoy steady demand in world markets.

Significant changes occurred in the areas of utilization of foreign investment compared to the prior year. The amounts of investment in direct and, especially, portfolio investments dropped sharply, and trade credits and other investments almost doubled.

The sector thrust of the utilization of foreign investments also changed. The amount of foreign investment in the non-production sectors declined sharply, totaling 59.8 million dollars or 16 percent of the 1993 level. The amount of foreign investment in production sectors totaled 993.6 million dollars, or 39 percent of the 1993 level.

Foreign investments are being directed by and large toward the extraction sectors of industry, construction, and the sectors of the production infrastructure. The share of foreign investment in the fuel and power sector increased by more than three times in 1994 compared to 1993, from 16 to 50 percent, and doubled in construction, transport and communications. The share of foreign investment in machine building decreased sharply at the same time, from 23 to 4 percent.

Capital investments (construction and installation work and equipment) constituted a third of the overall volume of foreign investments. The share of foreign investment was the highest in construction (77 percent), metallurgy (75 percent), and agriculture (73 percent). The share of foreign capital investment in the fuel and power complex decreased from 20 percent in 1993 to 13 percent in 1994.

Foreign investors in 1994 thus preferred investments of hard currency funds in monetary form, primarily in the form of trade credits. They invested hard-currency funds in sectors of the production sphere that enjoy effective demand on both domestic and world markets, as well as ecologically harmful types of production.

The **outflow of hard-currency funds** from Russia, however, is several times greater than the amount of foreign investment. A considerable portion of these funds are illegally placed in accounts in foreign banks. The International Financial Institute, which represents 175 international banks, has valued the illegal drain of capital from Russia at one billion dollars a month.

A decrease in the level of inflation, the surmounting of the decline in production, and the financial revival of enterprises are essential conditions for the renewal of investment activity and the creation of a favorable investment climate. The edicts adopted by the president and the decrees of government for the timely and full payment to the budget of taxes and other mandatory payments, the normalization of transactions and the strengthening of payment discipline, the use of the mechanism of accelerated depreciation and revaluation of fixed capital, the development of financial leasing, the regulation of the securities markets, the abolition of quotas and licensing for the deliveries of goods and services for export, and the sale of incomplete housing construction, as well as measures to stimulate foreign investment and, in particular, the presidential edict "Private Investments in the Russian Federation," which envisages the placement of centralized resources on a competitive basis and the forms of the participation of the state in financial support for projects, and a number of other decisions are all aimed at accomplishing these tasks.

These measures should facilitate a revival of the economy and provide for the stabilization of the situation in the investment sphere, support for positive structural shifts, stimulation of promising types of production, the resolution of the payments crisis, and the timely and complete receipt of financial resources to the budget etc.

The funds market should be an important tool for the accumulation and redistribution of monetary resources.

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The tasks of activating investment activity with the creation of a favorable investment climate for both domestic and foreign investors have been advanced in the Message of the President of the Russian Federation to the Federation Assembly. The state must stimulate private investment to the utmost, and direct state investments toward the realization of investment projects in conjunction with private investors, for this purpose.

A number of the resolutions adopted by the government in recent years, and in particular the signing of the Statement of Economic Policy of the Government and the Central Bank of the Russian Federation for 1995—with the aim of creating favorable conditions for the revival and growth of the Russian economy, a steady rise in the standard of living of the population, by means of a sharp reduction in inflation and an acceleration of institutional and structural reforms—should facilitate a strengthening of the confidence of foreign investors in the course of the reforms being pursued and the measures being taken to improve the investment climate.

The signing of an agreement to grant Russia reserve credit in the amount of 6.25 billion dollars by the prime minister of the Russian Federation and the managing director of the International Monetary Fund is confirmation of this.

The draft Edict of the President of the Russian Federation "Insurance for Investments Against Non-Commercial Risks" has been developed for the purpose of creating a favorable environment for the expansion of extrabudgetary financing of capital investments and the attraction of private (domestic, as well as foreign) investment in the economy.

The medium-range federal investment program for 1995-97 should provide for a transition from "an inflationary past to an investment future." The priority areas of structural policy for 1995 are the technological modernization of the economy, a strengthening of the national industrial infrastructure, and the development of exports, especially of scientifically sophisticated products.

*Regulations of Federal Commission on Securities Viewed

954E0876 Moscow TRUD in Russian 20 Apr 95 p 3

[Article by Dmitriy Vasilyev, deputy chairman of the Federal Commission on Securities and the Stock Market: "Most Important Today—Protection for Investors"]

[FBIS Translated Text] The Russian securities market is amazing the world with its fast development. Just two years ago, when voucher privatization was in full swing, few people would have dared suggest that Russia might become a serious object for investment in the years to come. Today, the Russian stock market is broad and varied enough to satisfy the interests of a diverse group of contributors of capital.

The market in domestic state, oblast, and municipal loans has been developing successfully for two years. The start of the monetary stage of state property privatization has opened up broad opportunities for investment in industrial enterprise stock. There is a high volume of turnover of stocks and other securities issued by commercial banks and private firms on the stock market. Despite financial scandals, the so-called "people's stocks," which are issued by a different kind of company that builds its business on the purely speculative game consisting of its own rising exchange rates, are also in demand.

The securities market's rapid development has given rise to a whole series of complex problems that may be classified as "growing pains." The first of these problems is the fact that the legislative base for regulating that market is lagging behind the financial force. This has also caused no small amount of damage to the millions of rank and file investors who entrusted their money to the creators of financial pyramids, individuals who are simply embezzlers who hook people with their demanding advertising. Despite the existence of over 100 normative acts, laws, presidential edicts, and decrees by the Ministry of Finances, the Central Bank, the State Committee on Property, the tax service, and other departments regulating the issue and circulation of securities and the activities of joint stock companies, unfinished spots remain in the legal regulation of the stock market, which not only hinder its development but leave loopholes for dishonest financiers and businessmen.

For this reason, protecting the rights and interests of investors is the main concern for state organs today, especially for the Federal Commission on Securities and the Stock Market, which was created in November of last year for Stock Market regulation. The necessity of this kind of regulation under today's conditions is also dictated by the most important economic task: to assure financial stabilization and a resurgence in investment processes. In order to facilitate their recovery from the crisis, Russian industry and agriculture need investment resources to modernize production and to make the transition to a more competitive product. Restoration of the economy, suppression of inflation, and an increase in employment among the population depend, to a large degree, on whether they are successful in mobilizing these resources on the stock market.

Monetary resources for investment do exist in the country. The level of savings among the population, which according to our estimates is equal to 23 percent of its total income, here is the highest in the world. Cash currency funds amounting to close to $10 billion have accumulated in the hands of average citizens. Commercial banks and financial companies possess large amounts of disposable funds. More and more, Russia is attracting the interest of foreign investors as well, as a sphere for profitable capital investment in the form of direct and portfolio private investments.

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It should be recognized that with high inflation and raging forces on the stock market, attracting all of these funds to the real economy, to production, would be unlikely. For many Russians, playing financial pyramids seemed to be practically the only, although it proved illusory, opportunity to protect their incomes even slightly from devaluation and to receive a speculative income exceeding the funds invested. Now an opportunity is arising to put an end to that tendency. The government's harsh anti-inflation policy is making it possible to lower the growth rates for high prices and to stabilize the financial situation. This will have a direct effect on securities market conditions as well, where recently there has been a noticeable rise in the demand both for state bonds and for stocks issued by private enterprises.

For the sake of fairness, it should be recognized that for now we should not expect high dividends from industrial enterprise stock. However, an improvement in business conditions leads to an increase in the exchange-rate worth of that stock, which allows their owners to increase their income by selling it at a higher price. Investments in the real economy will become more and more attractive for investors, especially small investors, as bank deposit interest rates drop with the decrease in inflation. In a word, today there are realistic chances that even this year, Russia's stock market will begin its transition from the "speculative" stage of its development to the investment stage. For that change to occur, however, much work remains in order to regulate the securities market, itself.

The first of these tasks is the adoption of direct action legal acts that would regulate that market. Besides the law on the securities market, which has still not been passed by the State Duma, we need a new law on joint stock companies that would be capable of replacing the five-year-old government decree that to this day regulates their creation and activities. Right now, no such law exists. The Federal Commission on Securities intends to introduce amendments to this decree that would make it possible to regulate the activities of joint stock companies and voting rules at their general meetings and that would more exactly stipulate the rights of stockholders and defend their interests.

General standards and operating rules for the stock market must also be established for all enterprises, banks, and financial companies. I am speaking of the procedure for conducting secondary stock emissions, of requirements for emission prospects, the registration of stockholders in registers, and much more, which would allow us to make our stock market more transparent for potential investors. The opacity of this market, or to put it more simply, the absence of trustworthy information about securities emitters, their financial status and business prospects, and the worth of production funds—that is, everything that determines the real market price of stocks—can scare investors away from investing in funds, sometimes in enterprises with extremely good prospects. Essentially what happens is that they are offered, as they say, a "cat in a bag."

This kind of situation cannot suit even the inexperienced Russian depositor, much less a foreign investor who will not risk his capital on a market where securities are not issued and circulated according to world standards and do not have sufficient liquidity.

A no less substantial problem is the growing contradiction between the stock market's needs for expansion through the attraction of small investors, and the orientation, as it has evolved in recent years, adhered to by professional market participants toward large investors. It is understandable that the average citizen who wishes to invest his free monetary funds in a reliable business cannot function independently on the stock exchange—and even less so on the foreign exchange market—since he has neither the license for this nor the information nor the experience. He is very much in need of a reliable and honest middleman: a bank, an investment fund, a brokerage firm. In Russia, there are already over 3,000 brokerage firms functioning, the 55 largest of which have joined together into an association so that they can regulate the securities market themselves and bring order to that market's operations. The Federal Commission attaches great significance to this type of self-regulation because who could have a greater interest than professional market participants in preventing scandals and embezzlement and in raising investors' faith in that market?...

Self-regulation of the market by its professional and honest participants is especially important in light of the fact that small investors are still pecking away at the advertised promises of the builders of financial pyramids. While in Moscow, Saint Petersburg—the centers of the stock market—and in other large cities in the Urals and Siberia, the population has already learned through the bitter experience of investments in false securities issued by financial schemers; in the provinces they continue to be enlightened. For this reason, despite the expanding geography of the operations of professional market participants and their orientation toward the small investor, an all-Russian protocol must be laid down as soon as possible for the stock market.

In connection with this, the Federal Commission attaches great significance to the creation and swift start-up of regional securities commissions. These commissions must create the data bases on local emitters and stock market participants, begin monitoring their compliance with securities legislation, track violations of the law, and conduct verifications.

Today the Federal Commission and the regional commissions, which have been granted broad rights concerning management of local securities markets, are faced with large and urgent tasks. We are speaking, essentially, of restructuring this entire market in order to facilitate its operation according to world standards, creating an infrastructure to serve it, and developing

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regulations that would ensure civilized behavior on the part of all of its participants. In other words, we are talking about creating a system of regulation and self-regulation that makes use of "honest game" principles that would provide for the interests of broad circles of the population and promote the quickest possible economic rebirth.

*Population's Financial Situation Assessed

954E0838A Moscow IZVESTIYA (Finansovyye Izvestiya Supplement No 21) in Russian 28 Mar 95 p 12

[Article by Valeriy Cherednichenko, director of the Social Prediction and Marketing Center: "The Population Trusts Sberbank Less and Less and Is Investing Money in Currency and Gold: Analysis of Russians' Financial Situation"]

[FBIS Translated Text] The development of market relations in Russia is resulting in the monetary resources of physical persons beginning to play an increasingly noticeable role. Russia's actively forming financial market is characterized today by the following figures: There are about 2,500 commercial banks, 3,000 insurance companies, over 1,000 pension funds, and more than 800 investment companies operating on it. At the same time, although the basic interests of the above-enumerated components of the financial market are for the time being oriented toward legal persons (state structures, enterprises, firms, and organizations, numbering over 2 million), the market of physical persons is also beginning to play an increasingly large role, and constitutes 142 million Russian workers, including 36.4 million pensioners.

Incomes, Expenditures, and Reserve Money

This article gives the results of all-Russian surveys made by the Social Prediction and Marketing Center in 1994.

According to the data of these surveys, in October 1994 the average monthly income per family member, according to self-appraisal, was 191,000 rubles [R] (or $62). Considering the fact that the average size of a family was three persons, it turned out that the average monthly income of a Russian family was R573,000 per month in this period. At the same time, 8.1 percent of the population had an income up to R150,000 per month, and 4.7 percent had an income over R500,000 per month (see Table 1). For comparison, according to the data of the TsSU [Central Statistical Administration], 0.1 percent had an income of over R600,000 per month in the first half of 1994, according to Ministry of Labor data—4.6 percent, and according to expert estimates of scientists—10 percent of the population.

Table 1. Proportion of the Population with Different Levels of Average Monthly Income Per Family Member

Thousand rubles	Percent
Up to 50	8.1
51-71	13.1
71-100	18.3
101-150	22.1
151-200	16
201-500	17.8
Over 500	4.7

Rural inhabitants predominate among those having an income of up to R50,000 per month per family member.

Most of those with an income of R101,000-150,000 per month proved to be pensioners and humanities intelligentsia. Entrepreneurs and trade workers have an income of over R500,000 per month. The average level of income per family member among different social-professional groups proved to be the following (see Table 2).

Table 2. Level of Average Monthly Income Per Family Member, Thousand Rubles

Workers	167.7
Engineering-technical	147.2
Humanities intelligentsia	190.2
Trade workers	160.6
State employees	180.8
Military	202.0
Entrepreneurs	391.2
Students	144.6
Pensioners	130.1
Rural inhabitants	137.3
Average for Russia	191.0

It can be seen that the rural inhabitants have no investment potentials, but among urban inhabitants, entrepreneurs and trade and everyday workers may appear as investors. The real situation for city dwellers is, however, somewhat different. There are two reasons for this: First—the unaccounted incomes of the population, which make possible a considerable expansion of their investment potentials, and second—the short-term accumulation of monetary funds by various groups of the population, regardless of their income level. This makes it possible for them to create a temporary reserve of free money, which, due to the influence of advertising, can be invested in various financial-industrial projects.

Wages are the main source of income for the population. They constitute 75.6 percent of all family incomes. In second place—pensions and benefits—14.4 percent, and in third—additional, extra earnings (7.8 percent). It is interesting to note that the income from deposits in

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banks (financial companies)—1.1 percent—constitutes the same proportion as the incomes from renting housing (0.4 percent) and other types of income (0.7 percent). By individual professions, the proportion of wages in the overall income structure fluctuates from 64.9 percent among students to 90.9 percent among the military; of pensions (benefits)—from 1.9 percent among entrepreneurs to 75.4 percent among pensioners; obtaining incomes from deposits in banks (financial companies)—from 0.2 percent among workers to 2.9 percent among students (see Table 3).

Table 3. The Structure of Some Sources of Income Among Various Categories of the Population, Percent

	Wages	Pensions (Benefits)	Percent of deposits in banks (financial companies)
Workers	85.6	7.4	0.2
Engineering-technical	86.9	7.4	0.6
Humanities intelligentsia	80.4	6.3	1.1
Trade workers	77.4	7.4	1.3
State employees	85.2	7.9	0.5
Military	90.9	4.7	1.2
Entrepreneurs	87.2	1.9	2.3
Students	64.9	9.8	2.9
Pensioners	21.2	75.3	0.7
Rural inhabitants	76.2	16.3	0.9

The income from interest on deposits in banks (financial companies) is mainly obtained by students (2.9 percent), entrepreneurs (2.3 percent), trade workers (1.3 percent), servicemen (1.2 percent), and humanities intelligentsia (1.1 percent). It must be noted that the relative proportion of additional, extra earnings in the income structure of the population (particularly entrepreneurs) is considerably higher, since part of the incomes is kept secret and, in addition, the incomes from entrepreneurship are regarded by Russian businessmen as "additional earnings," not as profit from commercial activity.

Family Budget

According to self-appraisal, in October 1994, the population spent most of all on food—R226,000 per month, and on the purchase of nonfood commodities—R123,000 per month. It spent R49,000 per month to pay for municipal and everyday services and transport expenses. Some R114,000 per month per family, or 17.6 percent of the total family budget, was left in the form of reserve money (that is, money earmarked for the purchase of durable goods, apartments, summer homes, tourist trips, etc.).

It follows from the results of the survey that 22 percent of Russia's population have reserve money, and moreover, in 1994 a stable trend was noted toward an increase in the proportion of the population with reserve money: in March—14.6 percent, in June—15.1 percent, and in October—22.2 percent.

Simple calculations show that on the whole today the population has a total of R3.7 trillion in reserve money.

Most of the reserve money is found among population groups aged up to 30 years (26-30 years—R159,000 per month reserve money, under 20 years—R135,000 per month, 21-25 years—R123,000 per month), and by professions—entrepreneurs (182,000 per month), servicemen (R164,000 per month), engineering-technical personnel (R163,000 per month), and students (R143,000 per month). The least reserve money is found among pensioners (R31,000 per month), humanities intelligentsia (R59,000 per month), and rural inhabitants (R65,000 per month).

If we examine the potential capacity of the reserve money market among various social-professional categories of the population (on the basis of the number of them and the proportion of available reserve money), we obtain the following picture (see Table 4).

Table 4. Volume of Savings Among Various Social-Professional Groups of the Population, billion rubles.

On the average for Russia	2,615
State employees	716.3
Workers	439.8
Entrepreneurs	396.8
Engineering-technical personnel	285.8
Pensioners	251.2
Military	228.8
Humanities intelligentsia	163.8
Students	59.2
Trade workers	58.9
Rural inhabitants	15.8

The largest-capacity market is among state employees, workers and entrepreneurs. Since there are more people in the first two categories, they accumulate the largest amount of reserve money. At the same time, the number of entrepreneurs and servicemen is much smaller than the number of state employees and workers, but the total sum of reserve money among them was less by only a factor of 2.0-3.0.

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Investment Priorities

Russia's population prefers to spend its reserve money in the following way (see Table 5).

Table 5. Investment Structure of the Russian population (in % of total number surveyed)

	June 1994	March 1994	1st half of 1993
Purchase durable goods	12.8	14.6	0
Purchase currency	8.5	5.1	3.4
Purchase gold, precious stones	1.7	1.4	0
Purchase real estate	2.7	2.4	0
Save in a bank	8.6	5.1	5.3
Save in another way	2.1	2.8	0
Purchase shares, securities	2.4	1.3	0
Pay for insurance	0.3	0.3	0
Pension contributions	0.5	0	0

The proportion of people purchasing durable goods and saving their reserve money in "another form" is decreasing, but on the other hand, the proportion of those purchasing currency (as compared with 1993—by a factor of 2.5), gold and precious stones, and real estate increased. It is obvious that the numerous sensational scandals with the MMM, Tibeg, and Chara joint-stock companies made small investors more cautious and careful with their funds.

It is particularly interesting that the proportion of those saving their reserve money in banks is steadily increasing—from 5.3 percent in 1993 to 17.1 percent in 1994; in addition, the number of people purchasing shares (securities) is also increasing; the proportion of those making use of the services of insurance companies and pension funds is also increasing. These figures are probably characteristic of a different category of businessmen—those who are oriented toward long-term, long-range investments in various spheres of industry, and not immediate income. At the same time we note this interesting point—for a one-time investment on very advantageous terms, each adult Russian can collect about R700,000 (this is one-and-a-half month's income for the average family at the end of October 1994). On the whole, the rough potential of the supply of financial resources for Russia's adult population is over R25 trillion.

The distribution of investment possibilities for the population by each individual category is the following. Men can obtain double the amount that women can at the same time (respectively R1 million and R430,000); by ages, the most active are the young people, particularly between the age of 21-25 years (they can at the same time obtain approximately R1,200,000), and pensioners can obtain the least of all (R160,000).

On the whole, the real capacity of the individual investor market (that is, the available reserve money among the population) in the autumn of 1994, according to our calculations, was R13.4 trillion for the entire adult Russian population, including, for students—R462 million, pensioners—R1.2 trillion, small- and medium-scale entrepreneurs—R1.8 trillion, and state employees—R6.9 trillion.

Degree of the Population's Inclusion in Various Spheres of the Financial Market

Banks, which are among the most numerous and oldest components of the financial market, have the largest number of clients. According to the data of the Social Prediction and Marketing Center, 40.3 percent of the adult population of Russia use the services of Sberbank, and 17.7 percent use the services of commercial banks. At the same time, the main clients of Sberbank are pensioners (60.0 percent of the pensioners surveyed have Sberbank bankbooks) and workers (41.6 percent), whereas the main clients of the commercial banks are entrepreneurs (57.4 percent), the military (21.1 percent), and students (18.4 percent).

In addition, we must also emphasize the unfavorable dynamics in the changes of attitude of individual depositors with respect to Sberbank: While in March 1994, 30.7 percent of those polled preferred to keep rubles in it, and in June—40.6 percent, in October this proportion decreased by a factor of 1.6—to 25.0 percent. But then the proportion of those wishing to keep rubles in commercial banks increased by a factor of 1.3 (from 18.2 percent to 23.3 percent) as compared with March, and was virtually equal to Sberbank.

If we take into consideration the fact that, with respect to currency deposits, commercial banks surpass Sberbank by over 100 percent (respectively, 22.5 percent in commercial banks and 10.2 percent of those wishing to keep currency in Sberbank), the conclusion follows that Sberbank is rapidly losing clients among the population. Its leadership today is based on the old deposits of the population of the former USSR (when Sberbank was the monopolist) and categories of the population who are not well-off today (pensioners and workers).

The wealthy and the young categories of the population prefer commercial banks. Perhaps the only reason for people continuing to keep money in Sberbank are the state guarantees for their deposits or, in other words, reliability: With respect to this indicator, Sberbank outstrips commercial banks by a factor of over three in the estimate of the population (respectively, 53.8 percent consider Sberbank to be reliable, and 14.9 percent—commercial banks) (see Table 6).

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Table 6. Adult Population's Estimate of the Reliability of Various Types of Banks, Percent

	Reliable	Unreliable
Sberbank	53.8	24.3
Commercial bank	14.9	53.8
Foreign bank	46.5	20.1

With respect to the reliability indicator, Sberbank has a powerful competitor in the form of foreign banks, the level of trust in which is virtually comparable to trust in Sberbank.

This situation with Sberbank has ambiguous consequences. On the one hand, it is very good that Sberbank's monopoly has been destroyed. Competition contributes to expanding the range of financial services offered.

On the other hand, though, Sberbank invests the deposits it accumulates in the sectors of the national economy that need state support from the standpoint of the entire state's security of existence. On this plane, Sberbank plays an important role, since it is very difficult to persuade the commercial banks to invest in unprofitable and low-profit (or even losing) spheres of the national economy. Sberbank's rapid loss of its position on the individual deposit market through gross errors in calculation and blunders would therefore be a sad example of the inability to reorganize itself in market relations.

Table 7 shows what additional banking services (apart from deposit) the population would like to have.

Table 7. Additional Banking Services (Apart from Deposit) Which the Population Would Like To Have Available

	Percent
Using money and securities on the instructions of the depositor to obtain profit	15.9
Issuance of plastic credit cards	9.2
Granting long-term loans	31.1
Granting individual safe-deposit boxes	4.3
Implementing settlements for goods purchased	11.2
Transfer of wages to personal bank account	9.5

Most of all, the population has a need for long-term credit—every third person would like to use this service (31.1 percent). It is interesting that, apart from entrepreneurs (44.6 percent of whom would like to make use of bank credit), the desire to obtain loans was expressed to the greatest extent by students (38.4 percent), humanities intelligentsia (34.5 percent), and employees (34.3 percent).

These data are characteristic of two trends. In the first place, just as in many highly developed countries of the world, entrepreneurs prefer to invest in real estate, and moreover try to do this on credit, in order to avoid using funds earmarked for the development of their own business. In the second place, office employees and the intelligentsia, who are also experiencing an acute need for long-term credit, judging by their level of income, are trying to provide themselves with a normal standard of living by this method. Two financial strategies are therefore considered—the first, which is characterized by the increased well-being of the entrepreneurs, and the second—which is characterized by the formation of a "new proletariat," consisting of office employees and the intelligentsia.

In second place is a service such as using money and securities on the instructions of the depositor to obtain profit—15.9 percent. The leaders here are also entrepreneurs (23.8 percent) and students (21.6 percent), and the military join them with respect to this indicator (22.9 percent).

In our opinion, the following are the reasons for the population's interest in this type of financial service: the scandals on the securities market and the people's striving to make the transition to civilized forms of using their money, as well as the decrease in opportunities for independent business.

Insurance companies are the most numerous of all the components of the financial market—they number over 3,000 today.

Amongst the Russian population, today's insurance service market encompasses 7.1 percent of the adult population of the country (data of the Social Prediction and Marketing Center for October 1994). Various types of insurance are used more by men (7.3 percent) than women (7.0 percent), and by families (7.7 percent) than nonfamilies (6.1 percent).

With respect to age groups, young people use insurance services most of all (see Table 8), using insurance for themselves and their commercial transactions. In addition, it is obvious that more parents are taking out insurance for their children, considering it a guarantee for their future.

Table 8. Proportion of Those Using Insurance Company Services Among Various Age Groups of the Population

Age group	Percent
Up to 20	10.6
21-25	6.8
26-30	7.5
31-40	7.4
41-50	8.2
51-60	5.5
Over 60	1.9

By profession, insurance is most widespread among state employees and workers—every ninth one of them is an insurance company client (11.1 percent and 10.4 percent respectively noted that they use insurance), and students (8.8 percent). Pensioners (1.8 percent), engineering-technical personnel (4.5 percent) and servicemen (4.8 percent) take out the least insurance.

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A precise correlation is observed, according to the level of average monthly income per member of a family—with an increase in income, the proportion of insurance services used grows (see Table 8)—from 3.3 percent with an income under R50,000 per month to 11.5 percent of those polled with an income of over R500,000 per month.

In the regional cross-section, insurance company services are used most of all in Vladivostok (13.5 percent) and Yekaterinburg (11.0 percent).

The financial characteristics of the insurance service market appear as follows. According to the data of the Social Prediction and Marketing Center, in October 1994, one adult spent R24,000 on the average per month to pay insurance premiums. Calculations show that on the average in a month, Russia's adult population is paying insurance companies R199.2 billion, and of this, women pay R127.8 billion and men—R74.7 billion.

This disproportion (women pay for insurance 1.7-fold more than men) should be taken into consideration by insurance companies in their advertising activity, since women, who most often communicate with the insurance brokers, are the main transmitters of information on insurance activity. By individual social-professional categories, the amount of monthly insurance payments is as follows: students—R7.6 billion, pensioners—R10.5 billion, entrepreneurs—R26 billion and state employees—R44.7 billion.

From the standpoint of insurance company reliability, the population's opinion of them is so far negative: Over half (54.3 percent) consider them unreliable, and only 11.1 percent consider them reliable. Insurance companies are on a par with commercial banks with respect to this indicator.

Pension funds, of which there are already over 1,000 in Russia, are only just beginning to be developed. Pension fund services are used by 2.1 percent of the population, most often among the senior-aged groups (6.7 percent of those over 60, and 3.7 percent of those aged 51-60), as compared with young people (1.6 percent aged up to 20 years).

In the professional cross-section, the clients for nonstate pension funds (NPF) are mainly pensioners (7.1 percent), office employees (3.7 percent), trade workers (2.9 percent), and rural inhabitants (2.8 percent).

With respect to the form of ownership of the enterprise where the clients work, pensions are most often registered at joint-stock private enterprises (5.7 percent), and three-fold less—at state (1.9 percent) and joint-stock state enterprises (1.6 percent).

With respect to the level of average monthly income, the proportion of NPF clients is mainly among those whose income is R201,000-500,000 per month—4.4 percent, and those whose income is up to R50,000 per month—3.3 percent.

On the whole, Russia's population is relatively weakly drawn into pension funds, which is in many ways because of the growth process of the NPF themselves and their overwhelming orientation toward work with legal persons, not with the population. But the very fact of the increasingly active expansion of the activity of insurance companies and pension funds, which play, in addition to a purely financial role, an even greater social role in society (and come forth as a unique stabilizer of the socioeconomic situation, because of the fact that these components of the financial market are working with "medium" and "long" money), attests to the presence and development of favorable aspects in Russia's financial system.

An analysis of the activity of financial-trust companies and funds is of particular interest on this plane. The numerous, sensational scandals clearly highlighted the new components of the financial market—trust companies. According to Social Prediction and Marketing Center data, 7.0 percent of Russia's adult population used the services of these companies, and this figure rises to 25 percent among the population in large cities.

Young people have cooperated most of all with these companies, and by professions—office workers, trade workers, students and entrepreneurs; by form of enterprise ownership—workers in private enterprises and state enterprises. It is interesting that, with respect to the level of average monthly income, the people who least often "gambled" with financial-trust companies were those with an income of up to R50,000 per month—1.1 percent and with an income of over R500,000 per month—1.9 percent, and most often—those with an income of R151,000-200,000 per month (13.4 percent) and R201,000-500,000 per month (13.2 percent). This means that the main clients of these companies and funds are middle-income people.

The results of the empirical polls attest to the fact that, despite the negative impressions resulting from the scandals that have taken place, 14.8 percent of those polled would like to make use of their services, but 60.4 percent are categorically against these services. Comparing the number of those having contact, it is obvious that these companies may increase the number of their clients among the population by a factor of 1.5-2.0. In this case, one-third of those who used the services of the financial-trust companies give a positive evaluation of this experience, and another one-third are neutral.

*Major Groups of Banks Offering Credits to Government

954E0862A Moscow KOMMERSANT-DAILY in Russian No 13, 11 Apr 95 pp 14-18

[Article by Nikita Kirichenko and Aleksandr Privalov: "New Clubs in the High Financial League. All the Largest Russian Banks Are Prepared To Grant Credit to the Government. Original Idea—Original Schemes"]

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[FBIS Translated Text] Last week two large banking groups, which control, according to estimates, up to 80 percent of the common credit resources of Russia's financial system, suggested to the government a partnership. As they say, the old-timers have never heard of such a thing. In the recent past the tactic of the large banks has amounted to attempts at exclusive control of various budget flows, market sectors, and spheres of influence.

Perhaps for the first time a group of "new" and "former specialized banks" have de facto admitted the priority given to corporate interests over individual ones and shown an unprecedented interest in the condition of national finances.

Naturally, the interests of these banking groups partially intersect with and partially supplement one another. One can hardly assume that things will go smoothly in the near future. But, in the opinion of KOMMERSANT-DAILY experts, the conditions are still better for reaching a compromise than they are for developing a confrontation scenario.

The Initiative of the Banking Consortium

As we have already written (see KOMMERSANT-DAILY No. 12), on 30 March the president of Oneximbank, Vladimir Potanin, on behalf a group of founding banks of the limited liability partnership Mezhbankovskiy Kreditnyy Soyuz (a license for conducting banking operations was obtained from the Central Bank on 22 March 1995) made a proposal to grant large-scale credit to the government secured by the transfer of the state's blocks of shares to the banking consortium as trustees along with their sale at auctions, specialized auctions, and investment tenders.

For many people, including members of the cabinet and certain founding banks of Mezhbankovskiy Kreditnyy Soyuz, this announcement was extremely sudden: In the opinion of certain observers, the consortium was born and shown to people "somewhat prematurely."

As KOMMERSANT-DAILY correspondents managed to clarify, in point of fact by the time Mr. Potanin's announcement was made, the general position had been more or less coordinated among the three initiating banks (Oneximbank, Menatep, and Stolichnyy Bank Sberezheniy) and Oleg Soskovets, Anatoliy Chubays, and Sergey Belyayev had been informed of the general outlines.

As of 5 April six Mezhbankovskiy Kreditnyy Soyuz founding banks had officially (at the level of signatures) announced their participation in the consortium (in addition to those listed above, Imperial, Inkombank, and the joint-stock commercial bank Mezhdunarodnaya Finansovaya Kompaniya), and verbal consent has been received from the chairman of the board of Vozrozhdeniye bank. The action group has also already begun active negotiations with Alpha- bank, Vneshtorgbank [VTB], and Sberbank concerning joining the consortium. The leaders of Rossiyskiy Kredit bank have also expressed, through the press, a desire to participate in the project.

A week was spent on coordinating the details of a program document that was mutually acceptable among members of the consortium. The final document, "On Organization of the Participation of Russian Banks in Monetary Privatization," was sent to the government, according to our information, on 7 April.

As follows from the document, when wording the proposal the consortium proceeded from the bankers' opinion (which we too partially share) that continuity of the fund infrastructure could lead to "exporting" the national securities market outside Russia—through a system of deposit receipts (ADR and GDR [expansions not indicated]). Recall that in KOMMERSANT-DAILY No. 11 we also noted that "Russian banks of issue had already played many of their 'trump cards'" through issuing deposit receipts: AvtoVAZbank, LUKoil Oil Company, the RAO [Russian joint-stock company] YeES Rossiya, and Severskiy Trubnyy; and according to certain information Chernogorneft, ZIL, and the RAO Gazprom would not be averse to joining them in the near future.

The consortium also devoted attention to a truly insoluble problem. Monetary privatization, as has been repeatedly proclaimed from government podiums, is called upon to solve two clearly incompatible problems. On the one hand, revenues from the sale of state property must appreciably supplement the revenue side of the budget (this year, according to the law "On the Budget," by R9.5 trillion). On the other hand, the money deposited by the buyers is intended to ease the inflation crisis at least to a certain degree by acting on the sold enterprises themselves. Of course, one might think that government statements about the duality of the purposes of privatization are not completely sincere: The latest actions of the authorities (for example, the earmarked increase of the share of revenues from privatization that goes into the budget) clearly show that the fiscal aims of privatization are more important to them than those of investment.

But such reflections would generally be idle: With the current sluggish investment demand, attempts at accelerated presentation of the entire large mass of shares for sale would clearly not hold much promise—they could lead to a collapse of the just formed Russian stock market.

The consortium is not telling the government anything new. But it is offering a solution: The government must accept preferred credit—and with it a deferment. During the time that is gained, it would be possible—theoretically, in any case—to solve many problems: It would be possible to properly prepare the infrastructure for the stock market and it would be possible to conduct active presales preparation of privatized enterprises,

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thus obtaining a great advantage. This is the kind of all-healing credit the consortium is prepared to grant.

The mechanism for granting the credit will have to be developed during the course of the negotiations with the government. In its most general features it will look like some kind of mixture of a trust and a pledge. A bank participating in this scheme will grant the state credit, receiving in exchange in the trust department certain blocks of shares (the minimum ratio between the amount of credit and the block is a subject for negotiations). Who precisely will receive a specific block in trust will be decided during the course of the tender among the banks involved. The meeting of the commission that sums up the results of the tender will be open to all who are interested.

The conditions of the trust must include: an unrestricted right to vote with the pledged block; the right to invest it and conduct "repo" transactions; the right to prepare shares for sale—at any time offer (just offer!) to sell these shares to the state according to the plan preferred by the bank. If the state agrees, the actual sale will be conducted by the state organs for privatization.

If the government does not repay the credit on time, the block of shares will be turned over to the trustee manager.

There are certain bugs to be worked out here, of course. Repledging the entrusted package could lead to irreconcilable conflicts—but, after all, this is just a sketch of the mechanism and one must not get bogged down in details. Especially since there are much more interesting details than these.

For example, if during the time of the trustee administration they manage to raise the quotations of the corresponding shares above the initial (coordinated with the government) level, a certain part of the capital gain is to be paid in the form of a bonus to the company manager.

Which blocks of shares will be "drawn" into this mechanism? From what we have been able to understand from our conversations with participants in the consortium, they are speaking about three groups of enterprises. First, the comparatively few that one bank or another has already picked out for itself (for example, they have bought a block of shares or granted significant credit); second—the "almost liquid" enterprises (the price of which could be raised appreciably with relatively small investments); and, third and finally, enterprises in which some large Western investor is known to be interested.

The consortium never tires of emphasizing that its proposals do not assume any exclusivity: The proposed mechanism is fundamentally *open*—any bank, any financial or investment company will have an opportunity to be included in the implementation of the operations proposed by the consortium on an equal basis with the initiators. The consortium's organizers think—and, in our view, quite justifiably—that acting on their initiative will provide the banks with not only tactical but also strategic advantages: qualitative development of the stock market and stable "initial positions" in it—what could be better?

For some additional comments on the consortium's initiative we turned to the first deputy chairman of the board of Imperial Bank, Sergey Dubinin, who is in charge of the "stock" department in the bank. Mr. Dubinin said: "The essence of the initiative amounts to constructing a market infrastructure. This has to do with working with shares of the enterprises—current and potential clients of the banks. Regular failure on the part of the enterprises to repay their credit will entail a failure to repay interbank loans and could undermine the banking system as a whole. Therefore it is fairly important during the course of the monetary stage of privatization to work out a system whereby the sale of shares would not cause financial harm to the enterprises but, on the contrary, would support and organize for them an influx of resources and open up prospects for attracting additional funds. If the banks were pursuing purely selfish aims it would be more logical not to begin a new campaign but to prepare for traditional auctions, prepare for some kind of back-room conspiracy, and drive down prices."

"There can be no question of our taking over certain functions without consultation and without coordination with the administration of the enterprises, the current stockholders, etc. We want to make this operation advantageous for all three parties—the government, the stockholders, and the financial intermediaries. It is as though we are insuring the stockholders against devaluation of their shares during the course of privatization," thinks Sergey Dubinin.

Mr. Dubinin emphasized that Imperial already has a certain amount of experience working with the oil company LUKoil in developing a mechanism for attracting Russian and foreign investments and also repaying indebtedness to the federal budget.

The company suggests making investments with funds received from the issuance of bonds of this same LUKoil that freely circulate in the country and abroad under the guarantee of shares temporarily assigned to federal ownership in the amount of 11 percent of its authorized capital.

The banker also noted that today the banks are interested in entering the derivative securities market—in order to place them among the broad population. In fact investment money comes primarily from the savings of the population and pension funds." It would be strategically correct, as Sergey Dubinin sees it, within the framework of the program that is being created to offer to the population securities that are backed not by air but by real assets.

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The Initiative of the Nadezhnost Club

Somewhat after the consortium's initiative was announced, namely on 4 April, another, larger bank association, the Nadezhnost Club—which includes Agromprombank, Vneshtorgbank, Vozrozhdeniye, Mosbiznesbank, Promstroybank, Sberbank, and Tokobank—offered the government services for organizing the financing of priority state programs. The joint announcement of the Nadezhnost group after long discussions was signed by all participants, with the exception of Vneshtorgbank. (In the opinion of KOMMERSANT-DAILY experts, Vneshtorgbank refused to sign the document out of ethical considerations, afraid of doing anything to endanger the interests of one of its stockholders—the Central Bank of the Russian Federation.)

For comments on this initiative, KOMMERSANT-DAILY correspondents turned to Tokobank, since its president, Viktor Yakunin, came up with the initiative to create the club at the end of last year.

Commenting on the application for cooperation with the state by banks of the Nadezhnost group, a member of the board of Tokobank, Boris Sergeyev, said that one of the main objectives when building relations between club members and the government is to reach agreement on mutual trust between organs of power and business circles. It is suggested that the powers participate in the development of a mechanism for applying tax benefits for investment credit, legislatively reinforce the existing tax indulgences, increase the tax duties on imported goods whose production within the country is to be encouraged, reduce duties on raw materials, processed materials, and equipment intended for supplying priority productions, take measures for state support of leasing, etc.

By Boris Sergeyev's admission, Russian banks have repeatedly had to pay for the irresponsible statements of a number of political figures. "For holding a discussion in the press on the subject of Russia's possible refusal to make payment on its foreign debts, for statements of political leaders regarding the introduction of a fixed rate of the ruble, for public recognition of the intention of the authorities to force Russian banks to use one-third of their own capital for investment or one-half for investment in the agro- industrial complex, domestic banks are paying higher rates on attracted funds," thinks Boris Sergeyev.

In Mr. Sergeyev's words, Nadezhnost unites banks with similar philosophies. Members of the banking club intend to suggest reaching agreement on certain rules of the game. Namely: For a certain amount of time not to change legislation or norms for reserves, not to increase the tax burden, and to reorient the tax service and the arbitration courts away from collecting surplus sums from the banks in favor of the budget, taking advantage of the contradictions in the law, etc.

"In addition to everything else, only a normal economic situation in the country and not 'amnesty for fleeing capital' will be able to attract the money that has emigrated from the country and foreign investments to Russia. With favorable circumstances the money (even if it is under the name of another owner) will return to Russia," Boris Sergeyev is confident.

The acquisition of guarantees, if only of relative stability, seems important to the bankers because the government that calls for the banks to invest in the economy theoretically has only a year left in power and, much as it may wish to, it cannot guarantee with its word of honor a most-favored status for investors for many years into the future.

Boris Sergeyev confirmed that members of the club are attracted by the scheme proposed by Minister of Economics Yevgeniy Yasin, according to which the weight of the investment credit will be distributed among the borrower himself, the bank, and the government. If the government responds to the proposals of the Nadezhnost group, it will be able to initiate the creation of an association which could include any banks, including those from the new consortium. "It would be incorrect and dangerous to separate various banking groups, not to mention set them against one another, since in the market the banks are partners with one another," Boris Sergeyev added.

It is interesting to note that Mr. Sergeyev told a KOMMERSANT-DAILY correspondent the following: The inclusion of Tokobank in the consortium, "made public" by Vladimir Potanin at the expanded session of the government, like the actual idea of its creation, was a surprise to Tokobank representatives.

"So far we have seen no concrete proposals in written form and it is difficult for us to judge their value," the banker added. At the same time Boris Sergeyev added that his bank in principle is not participating in any political associations and is against the practice of creating "special" associations and giving any kinds of advantages to certain subjects of the market to the detriment of others.

What Investment Totals Can There Be

As KOMMERSANT-DAILY correspondents learned from their conversations with representatives of member banks of the consortium, in his speech to the government, by a sum "comparable to IMF credits" Mr. Potanin meant the allotment to the budget currency of credit equivalent initially to 2-3 trillion rubles [R], and "comparable conditions"—the cost of credit at the level of the LIBOR [London Interbank Offered Rate] plus 2-4 percent.

It is this particular sum (R2-3 trillion) that today can be regarded as free (undistributed) residuals of the internal funds of the member banks of the consortium. From all appearances this is what is being referred to, because

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government credit from attracted funds (for example, clients' deposits) obligate the banks to reserve considerable sums in correspondent accounts of the Central Bank, thus increasing the cost of budget credit for them. Incidentally, the sum of credit may also be higher, for example, because of the fact that Imperial is purchasing controlling blocks in four other medium-sized Russian banks and their funds may also be used to finance the budget deficit (after registration of transactions in the Central Bank the total assets of the Imperial group could exceed R15 trillion).

The resources of members of the Nadezhnost Club, which could potentially be used for investment credit for the economy through regrouping their portfolio and internal funds, are considerably greater than those of the consortium. According to preliminary estimates, these banks could allot about an additional R10 trillion for investment credit at an interest rate acceptable to the enterprises if they receive from the government certain benefits with respect to reserves and guarantees.

Let us note that if the consortium and the club work as a pair, that is if with the security of stocks and government guarantees the club will grant credit to enterprises that are in the consortium's trust administration, the investment scheme will again be protected from many sides and will be mutually advantageous. Let us recall that, in the words of Mr. Potanin, the consortium is now conducting active negotiations with three banks that are members of the Nadezhnost Club (Sberbank, VTB, and the Vozrozhdeniye Bank) concerning their entry into the consortium, and two of the Club's other member banks (Mosbusiness and Tokobank) are coauthors of the first offspring of the fathers of the consortium—Mezhbankovskiy Kreditnyy Soyuz bank.

Additionally, let us recall that the largest banks of the members of the consortium and the club (Imperial, Inkombank, Menatep, Mosbusinessbank, Stolichnyy Bank Sberezheniy, and Tokobank) are regarded as government agents in work with Western credits for Russian industry. The basic agreement for the allotment of credits by the World Bank and the EBRD [European Bank for Reconstruction and Development] in an amount of about $4 billion was reached at the end of 1993. Now the process of coordination has entered its final stage and in spite of certain technical delays, apparently, it will be implemented beginning in the middle of this year.

Thus it is quite feasible that the total strength of the "investment battering ram" with which the member banks of the consortium and club will be working, according to estimates, will be approximately $6 billion. In our view this will be quite sufficient to carry out at certain of the more promising enterprises the innovations necessary in order for their shares to increase appreciably in price. After which they could be used as security for more significant credit from foreign commercial banks and they could also be sold in blocks to foreign or other investors, they could begin to be quoted and sold in the West, and, finally, they could be transformed into small-denomination shares for attracting funds from individuals.

The probability of the realization of this fairly optimistic scenario increases primarily because of the fact that when banks in the consortium and the club cooperate with international financial institutions on the one hand and with the Russian Government on the other, what develops is precisely this mutually guaranteed mechanism for financing Russian enterprises, the lack of which is regarded by the majority of exports as the main problem in attracting Russian and foreign investments to industry.

A Couple of Versions of the Real State of Affairs With Bank Initiatives

Many observers today are drawing attention to the fact that a possible alliance between the government and "industrial locomotives" with large banks of the country began to take from long ago. And on initiative "from above," using the "carrot" method, or at least by the method of inspiring hope of a "carrot." We have already had occasion to write (KOMMERSANT-DAILY No 23 for 1994) about the fact that government conceded to Imperial its block of shares in the East-West United Bank (Luxembourg) and negotiations have been started concerning the concession of the government block of shares in Vneshtorgbank to Gazprom which, let us note, has its own banking "network" along with Imperial. The "close-to-power" groups of banks—the VAZ group and the consortium financed by the ORT [expansion not indicated] (see KOMMERSANT-DAILY No 9) were formed analogously (by the "carrot" method). Perhaps there would be some point in considering recent events in this particular context.

Some specialists think that the banks' initiatives still developed under pressure from the government. Here it is appropriate to recall that after Black Tuesday, when the commercial banks were subjected to a mass attack from the Security Council for their adherence to exchange financial operations, the prime minister's rationale provided a certain counterbalance to Mr. Lobov's position. At the meeting of the leaders of the leading banks the latter not so much "blamed" the bankers as urged them to orient themselves clearly to the needs of the real sector. In the 1995 budget, as if tacitly the banks were assigned the leading role in providing credit for the budget deficit through their more active purchase of short-term state bonds and similar securities. But it seems that the banks were not properly enthusiastic about the veiled proposals from the government to share their money. Then, in the opinion of certain observers, the government demonstrated who was in charge—increased reserve norms were introduced for the banks for high-risk and currency credit (see KOMMERSANT-DAILY No. 2), which one of the bankers who spoke with a KOMMERSANT-DAILY

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correspondent called "a mild form of nationalization of bank capital." And when the banks learned that it would not be easy to avoid pressure from the government, instead of losing their money to no avail (in reserve) or distributing it in short-term state bonds, whose reliability is inversely proportional to the size of the budget deficit, they decided to grant credit at lease as security for shares in the real sector and thus take charge of their own fortune. (Let us note that many of the aforementioned banks have portfolios of state securities that have already passed the trillion mark.)

But there is also a more elaborate version. According to information from circles close to the president's apparatus, there arose the idea (and, possibly, it had already assumed the form of a draft edict) according to which the banks in which the Central Bank has large shares (above all Sberbank, VTB, VEB, and Soviet banks abroad) had to unite into super-holding companies with a great deal of influence on state management structures. Possibly presidential analysts were motivated by the information about the recent wave of mergers of large banks in Japan, Finland, and Latvia.

But on the strategic plane such a turn of events is disadvantageous for the banks—both those that are members of the holding company and others. The former are threatened by the loss of some of their independence and the money which would be "lured" into the budget if the Ministry of Finance were included in the management organs of the holding company, and the latter—by the appearance of a powerful competitor with extremely strong positions both inside and outside the country. It is quite obvious that no bank holding company, even Promstroybank and Imperial, could stand up to such a superbank in the market. As a result, according to this version, in order to create a counterbalance to the initiative of the presidential apparatus, the Club and Consortium put forth a counterplan.

But it could be even more complicated than this. At the end of last week a rumor began to circulate in business circles to the effect that certain member banks of the consortium had sent a letter accompanying their basic proposal to the government apparatus. The letter supposedly contained a proposal to the effect that blocks of state shares in banks were to be turned over not to the holding company close to the state but to the trusteeship of the banking consortium which, as we recall, could also include banks with large state shares, and thus there was the hope of an autotrust (whereby the bank board of directors would receive in trust the state's block of shares of that same bank). Let us stipulate at the outset that these rumors have been officially and unequivocally denied by all parties involved, although there are plenty of vague hints. Our experience suggests that such a reaction on the part of involved parties is quite normal and complies with the canons of business and bureaucratic ethics, and one can also say that it means absolutely nothing.

For our part let us note that if these rumors are true, the initiative of the banking groups could be the beginning of a great division of spheres of influence in Russian finances and the economy in which the big political guns will be involved. If they are not true, we are speaking of a somewhat smaller-scale division.

*Bank To Participate in Television Project

954E0882A Moscow KOMMERSANT-DAILY in Russian 19 Apr 95 p 10

[Interview with Mikhail Khodorkovskiy, chairman of the board of the Menatep Bank, by KOMMERSANT-DAILY correspondent Nataliya Mandrova; place and date not given: "The Banker Is Counting on Good 'Television' Dividends"]

[FBIS Translated Text] Little more than two weeks have passed since the beginning of broadcasting on the first frequency channel by the Public Russian Television [ORT] joint-stock company. But the "parliamentary" passions surrounding the ORT are not only not dying out but, on the contrary, are flaring up with new force. All this is forcing ORT founders from financial structures to lift the veil of mystery that has so far surrounded the process of the creation of the television company. A couple of days ago, the chairman of the board of the Menatep Bank, Mikhail Khodorkovskiy, who had avoided communication with the Russian press for the past two years, gave an interview to KOMMERSANT-DAILY special correspondent Nataliya Mandrova. In the conversation he let it be understood that because of the parliament's attacks on the ORT, the bank's further participation in the television project (Menatep owns 5 percent of the shares in the ORT authorized capital) could come into question.

[Mandrova] Is ORT the Menatep Bank's first project in the area of the mass media?

[Khodorkovskiy] Its first large project.

[Mandrova] But does Menatep not have a share in the authorized capital of certain Russian newspapers or television companies?

[Khodorkovskiy] No, the bank has no holdings in the mass media.

[Mandrova] What objectives was Menatep pursuing in becoming one of the founders of ORT?

[Khodorkovskiy] For the Menatep Bank—as, I assume, for my colleague bankers among the ORT founders—this project is primarily an investment. There is no doubt that each investment project has many constituent parts, both in the area of costs and in the area of dividends. When I speak about costs, I have in mind, of course, the money and time spent by our specialists and certain difficulties that occur with public opinion when any complex project is being realized. But today the main problem in carrying out the investment projects is not

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money. The main problem is good managers. As is the case throughout the world, Russia has more money than people who can use it. Therefore, when we were approached by people who said that they could do television, that all they needed was money, we joined in the project.

[Mandrova] What is your reaction to the draft laws adopted recently by the State Duma regarding the ORT?

[Khodorkovskiy] I would like to note that the bank has not had, does not have, and will not have anything to do with the internal workings of the channel. And not because we did not want this. In addition to my awareness that I am not a specialist in the area of television, I also have responsibility for the money that was invested. We will be in on the project as long as we believe in the capabilities of the people who have undertaken to carry it out. As soon as we stop believing in them or see that the situation has changed and does not allow the full implementation of this project, we will pull out of it. That is what any bank in any country would do. Naturally, the laws regarding the ORT that are now being adopted by the Duma are a very serious signal to reject the project or at least think seriously about such a possibility.

Of course this would bring us losses, the more so since some of the money has already been invested. Although I will not say that we are completely unprotected. But as compared to the losses that would be possible if the project were to enter other stages of realization, this is small change. Believe me, the bank has a considerable portfolio of investment proposals. The choices are determined, among other things, by how favorable the situation is for one project or another. When we received the proposal to be one of the founders of the ORT, television was the most attractive project for us. Beforehand, we consulted a number of times on an unofficial level with the State Duma—it supported us, and with the Federation Council—it supported us; we asked the opinion of the administration of the president and the government—they all supported us. Now the situation is beginning the change.

[Mandrova] Since there have been too many mysteries surrounding the ORT project, tell us how it all began and what the requirements of the stockholders were in the initial stage, when they were discussing what the channel should be like.

[Khodorkovskiy] You may believe me or not, but I was absolutely not involved in many of these issues. Quite specific people came to me. I was called by the general director of LogoVAZ, Boris Berezovskiy, who proposed that we participate in ORT with 5 percent of the authorized capital. I trust him completely: He made his case, and it is developing well. At the same time, he proposed this to all of my colleagues who, with the exception of Inkombank, have joined in on the ORT. We asked what the investments would amount to. We were told that in 1995 about $150-200 million would be required. If we acquire 5 percent of the authorized capital, that means $3-5 million in investments for us. In 1996 the deficit will be $100 million. Correspondingly, we will be accountable for $2-3 million. Subsequently, the project will reach the level of profitability. There will still be no return on investments, but the interest will be paid. Like any financier, I doubled the total of our costs. I estimated that if over two years the project were to cost about $10-15 million, we could very well join in on it.

We immediately outlined our position to the other stockholders and said that we were prepared to work with two sets of conditions. Either we would take over the financing of certain individual programs or sections and finance them or we could finance the company as a whole and then we would hold the company's leaders responsible. That, of course, is correct. But ORT is a multifaceted project. But still a decision was made that we would finance the channel as a whole.

[Mandrova] Is it quite all right with you that the project will not become profitable for two years?

[Khodorkovskiy] If this were last year, I would have said that this is abnormal. Now the situation in Russia has changed, and now this project has become a good way of investing capital. We see it as being highly profitable in the future, but at the same time we see it as venture capital (risky—KOMMERSANT-DAILY). This is an axiom for any investments.

[Mandrova] Which items of financial revenues do you have in mind when you speak about the fact that the ORT project could become extremely profitable at some point?

[Khodorkovskiy] The bottom line is advertising, production, and sales of the television products themselves.

[Mandrova] But the board of directors has made a decision to stop running commercial advertising on the channel. I know that your position regarding this issue was fairly restrained. But what dictated such a decision, which many did not expect?

[Khodorkovskiy] The adoption of this decision was a kind of lockout for those advertising agents who had worked at Ostankino up to this point. They had begun to apply methods of out-and-out blackmail: Either things would be the way they wished them or they would take their advertising to other channels. When I was asked to express my opinion regarding this question, I said that Menatep does not have an opinion regarding this. And when the vote was taken regarding the question of halting the advertising on the channel, we abstained.

[Mandrova] If I have understood you correctly, these advertising agents did not give you a clear enough plan for the sale of advertising time or tell you when you could inspect it.

[Khodorkovskiy] No. As far as I know, it was simply that the advertising agencies that took their proposals to

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ORT would not guarantee the stockholders the market value of the advertising time.

[Mandrova] In light of the political situation in the country, what is your position regarding the ORT information policy?

[Khodorkovskiy] I am convinced that in today's situation nobody except the bank consortium I mentioned could provide the necessary financing for Ostankino: no Western banks, no state departments—their demands for the internal content of the channel would be the most important thing. As we know, foreigners will not provide financing without state guarantees, and the state will not provide it without an understanding of why this is necessary. Therefore, the television producers who say in the back rooms that it would be better to do everything themselves do not understand that they could acquire with minimum political conditions only from domestic financial institutions.

If giving air time for the opinion of one individual or another is necessary in order to have objectivity of information, I have nothing against that. But as a financier, I will insist that those who want to express their political opinion when it is not asked for pay money for this to the company.

[Mandrova] Tell us what made it necessary to sell 12 percent of the shares of the second issuance of the authorized capital of the Menatep Bank to the state.

[Khodorkovskiy] We would like to sell 15 percent. I asked Prime Minister Chernomyrdin to buy this block out of two considerations. First—as of today, the main investment resources are in the hands of the population and the state. We are not yet working with the population—that is the prerogative of Sberbank; our main client from the standpoint of investments is the state. If you want to keep your client, you must show him not only results but also how you achieved them. A typical method of showing this result is to sell a block of shares and include their representative on the board of directors. The second is that when we began to enter foreign markets, we began to experience very strong pressure from the foreign mass media and various state institutions and special services. We are working under severe pressure from Western supervisory agencies. We will not manage to enter the foreign market without support from such an instrument as the state. I must frankly admit that nobody expects that from us.

[Mandrova] You are known as a proponent of the idea of a strong state. By selling the state a block of shares in the charter capital of Menatep, you probably want to preserve the present government and president.

[Khodorkovskiy] Let us divide the problem up. Politics is politics, and the state is the state. Now it would be more difficult to express my attitude toward the president than my attitude toward the government. We work with the government every day. And I can say that it is very strong. Of course I do not mean the whole government. The economic ministries are being led by serious people. I would be very disturbed if they were replaced now. It would take a lot of time for a new team, even if it were a stronger one, to be able to "take over the reins." The present team has just barely done that.

[Begin box] COMMENTARY

From a purely political standpoint, the interview with Mr. Khodorkovskiy is interesting not so much for what the well-known banker preferred to say as for what he delicately preferred not to say.

Indeed, many big-time entrepreneurs and bankers in Russia are openly admitting their "politicization." In view of the fact that it has now long been an axiom that in Russia today there is no big business without big-time politics (or outside politics), just as there is no big-time politics without big business. Nobody has yet undertaken to refute this axiom. Even the head of Menatep would hardly succeed in doing so. Although in and of itself the existence of certain political biases might be considered a vice only by someone truly sanctimonious.

The head of Menatep tries in all ways to emphasize the idea that participation in the ORT was not brought about by political considerations at all. What then? Will it not be investing millions of dollars to its own loss? Even such a person with wide-ranging interests as Silvio Berlusconi would not do that. Although Mr. Khodorkovskiy's words could also be interpreted as a rejection of direct, open intervention in the television process. He will not be the one directing the programs or adjusting the broadcasting schedule. But then what about the investor's political convictions in a situation like this? What about the bias toward a "strong state"? Which has already materialized completely in support of quite specific efforts in the center of the political spectrum (for example, the "Stability" faction). What about the opinion that in the government "80 percent of the people are unnecessary"? Where is the limit of the patience of the ORT investor up to which he will grind his teeth but not interfere? And, finally, the last saying Mr. Khodorkovskiy uttered: "Politics is politics, and the state is the state." Separating one from the other, the banker brushes aside accusations of "politicization." Retaining the right to act in the mass media (and the ORT project is not the only one sponsored by Menatep) exclusively on the basis of considerations of "statehood." Concerning which nobody has yet managed to prove that it can be absolutely politically neutral. [End box]

*Tax Service Chief Gusev on Collection Problems, Other Issues

954E0857A Moscow ROSSIYSKAYA GAZETA in Russian 13 Apr 95 pp 1-2

[Interview with Vladimir Vasilyevich Gusev, head of the RF State Tax Service, prepared for press by A. Yevgenyev, under the rubric "First Person Interview":

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"Vladimir Gusev: You Must Not Spend More Than You Have—The State Tax Service Will Perform Its Duty to the Budget"]

[FBIS Translated Text] **Today our editorial office guest is the head of the Russian Federation State Tax Service, Vladimir Gusev. He has a surprisingly straightforward biography for our day. He graduated from the law school at Leningrad University. He began at the very bottom, as senior inspector for state income at the Plesetskiy Rayon Financial Department in Arkhangelsk Oblast. And then, for almost three decades, wherever he worked, Chukotka, Uzbekistan, or Moscow, the material was the same: income, expenditures, taxes. Exactly 2 years ago, Gusev was appointed head of the Russian Federation State Tax Service with the rank of minister.**

[Yevgenyev] Vladimir Vasilyevich, it is well known that the share of taxes your department is supposed to provide for the budget is more than 50 percent. But few people know what Gosnalogosluzhba [State Tax Service] is these days.

[Gusev] The Russian tax department is a relatively small central apparat of 565 people and a farflung system consisting of 165,000 employees in all 89 subjects of the Federation. There are tax inspection services in every rayon and in every city of oblast subordination. They are independent of the local administrations but work in close cooperation with them on a number of issues. The range of their duties is quite broad—from placing taxpayers on the rolls to identifying and forcibly collecting nonpayments from those who neglect their duties to society. I will say one other thing: on the rolls today we have 2.5 million legal persons and those physical persons who have income in addition to their main job.

[Yevgenyev] According to your own department's reports, last year the budget failed to receive almost 40 percent of the taxes, although they were entered in the budget. That is about 33 trillion rubles [R]; while in foreign currency at the present rate, it is slightly more than 6 billion dollars. That is to say, exactly the sum which we are tearfully soliciting from the International Monetary Fund today.

[Gusev] Yes, arrears are huge at present. There are several reasons for that. Above all the decline in production proved to be deeper than was figured, and inflation proved to be lower. This could not fail to have an effect on tax levies. The 1995 budget seems more realistic to me, so I am convinced that if questions of the license fee for production and sale of alcoholic items are resolved, we will collect that R97 trillion which is entered in the budget.

[Yevgenyev] But mutual nonpayments continue to rise. Other enterprises would certainly be glad to settle with the treasury but there is nothing to do it with. Doesn't that bother you?

[Gusev] Of course it does. Today we have R13 trillion worth of taxes which have been calculated and submitted but not received. This is a direct consequence of the nonpayments crisis. One of the largest debtors is the fuel-energy complex. Taxes of R1.30 trillion "hang" over the LUKoil company alone. The situation is complicated but in my opinion not utterly hopeless. The government recently published a decree on the issue and sale of bonds of the LUKoil company and its subsidiary enterprises. Revenue from placing the bonds both in the country and abroad will go first to pay off debts to the federal budget.

[Yevgenyev] Many industrialists claim that taxes in our country are such that you have no choice but to look for a way to evade them. Ninety-five percent of the capital is taken from an enterprise—what next?

[Gusev] Sometimes something even more stinging is heard: R1.2 from the ruble. But, pardon me, this is a subject for first-year students, not for specialists. And when you begin to investigate, you will see, for example, that the producer has thrown in the 20 percent value-added tax here, seeming to forget that the value-added tax is the difference between what is received and what is paid, and if the difference is negative, the budget reimburses it. Will the producer pay this tax? Of course not; you and I, the purchasers, will. Many taxes are included in prime cost and are reflected in the price. And once again the consumer ultimately pays them. There are precise statistical workups on this score. Although overall I agree that the tax burden on the commodity producer is very high in our country. But that cannot serve as an excuse for tax evasion.

[Yevgenyev] Privatization is underway in Russia and many people are becoming owners. But there is no property tax in our country. But if there were, and just as considerable as in the West, we would plug up all our budget holes. Look at the private homes being erected around Moscow. What are their owners paying to the treasury? Kopecks at best.

[Gusev] We do have a property tax, 2 percent of value. But that is not the point. Who sitting here can say that he is the owner of such a private home? See. The wrong company, as people say. That is, we are speaking of exceptions rather than the rule, people upon whom we could rely to fill the budget. And so a more appropriate question is, where is the money to build these brilliant mansions from, and has the "construction" income been officially registered? But it is not all so simple here.

If the tax inspector goes to the owners of them and asks whether they submitted tax declarations, they will not even talk to him like a person. They will say: we pay taxes on our wages and we do not have any other sources of income, or they will give the reason that it was a gift, and that's it. Leave me alone! You are 100-percent right here. Legislation is such in our country that documentation of expenditures is not required, even when they are very questionable. We have raised this issue more than once. A governmental decree establishing the procedure for submitting income declarations when the property of physical and legal persons is privatized came out a few

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days ago. But as far as this type of construction and expensive purchases, once again there is nothing.

[Yevgenyev] It is generally understood that property stratification is underway in society. But somehow semi-legally, by paradoxes. Say, the president of a commercial firm officially receives R200,000, but he is riding around in a Volvo, not a government one at all, a personal one.

[Gusev] I cannot speak for every merchant, of course. But this is a practice we discovered long ago: according to the pay scale, a particular bank employee, for example, is offered wages of R200,000, R300,000, or maybe R500,000. But instead the bank concludes an agreement with him and transfers a round sum to him on deposit at a good interest rate. Millions of rubles are accumulated every month as a result. So the struggle to tax this interest which has been waged steadily for more than a year has not led to anything at all—the State Duma does not support us. Although we are clearly dealing with a hidden form of wages, and taxes are not being levied on them.

[Yevgenyev] But it certainly should not be that way, wholesale ["chokhom"]; people should pay their share from 5 million or from 305.

[Gusev] No one plans to take it wholesale. We can set a limit: no levies up to a particular sum, but everything above it—kindly fork it over. But at this point far from everyone who is legally obliged to is paying taxes, and we can do nothing about it.

[Yevgenyev] Here is a "people's" question: What is it with Mr. Mavrodi?

[Gusev] I do not know. It is the Duma which must decide whether to consent to bringing Sergey Panteleyevich to trial or not. He did not pay the required amount of taxes. But the Tax Police Department and the procurator's office are required to determine whether his actions contained the elements of a crime or not and what he should be charged with.

[Yevgenyev] Generally how do these structures manage to evade taxes?

[Gusev] There are enough loopholes at present, unfortunately. Criminal proceedings were instituted against Mavrodi both in 1993 and in 1992. And dismissed. Most criminal cases involving nonpayment of taxes do not make it to trial.

[Yevgenyev] Is the legislative base imperfect?

[Gusev] Many things have an effect. The fact that legislation has not been worked out, and that this is a new type of crime included in the Criminal Code and there are not enough specialists in the required field—there is no one to conduct tax expert audits. The leadership of the tax police made a proposal to invest their department with the right to do the preliminary investigation and expert study themselves, rather than just the inquiry as it is now. This seems perfectly reasonable to me personally.

[Yevgenyev] There are spheres where the tax department's presence is not felt. For example, show business, as it is called, where an absurd amount of dollars in cash circulate. Or the video market, which is apparently controlled by none other than the mafia. And a great many other things.

[Gusev] We just submitted a document to the government where we laid out our vision of the fundamentals of legislation on the gaming business. But here we must begin not with taxes even, but with regulating the procedure for opening casinos and other establishments of this type. There are no single regulations now. The local administration or some official signs a decision, and that is all there is to it. No monitoring and no accountability.

Now about taxes. Yes, we are coming up short here. But let us look at things soberly all the same. It is naive to think that everyone will suddenly begin to pay taxes in full. We must teach tax sophistication, and that is not a matter of a single day. Here is a simple example. The law required private merchants to get cash registers. And many stores, kiosks, and stalls have them. I go up to the window and I buy something, but no one gives me a receipt. And I do not ask for one myself. But an inspector cannot be assigned to each register. Isn't that true? One-time audits are ineffective. It must be within each of us, sellers and buyers, respect for the law. And while there is general legal chaos in the country, it is naive to hope that the tax sector can somehow single itself out and become a model on its own. Such things do not happen. In this sense we have bad genes, but that does not mean that we are doomed. I am firmly convinced of the opposite.

[Yevgenyev] At one time the tax war between the center and the subjects of the Federation became so intense that it threatened to split Russia. What is the situation now?

[Gusev] Today no one says, I am not going to pay taxes. They say something different: Why drive money from the republics to Moscow and back? Isn't it better to leave some of it in the local area then and there with the obligation to finance certain federal programs? Such agreements have been signed with some subjects of the Federation. I do not see anything wrong with that. But in my opinion if we have declared such a practice possible, then it is logical to extend it to all subjects of the Federation without singling out anyone personally. The slightest hint of discrimination is always received with suspicion, offense, and irritation in local areas.

[Yevgenyev] Work has begun on the new tax code. I would like to know what you think of it.

[Gusev] The prevailing opinion in the government is that reform is necessary, but we should not resort to fundamentally breaking up the tax system. Practice shows that 85-90 percent of all budget revenue is provided by five taxes: tax on profit, value-added tax, excise taxes, fees for natural resources, and tax on income from physical persons. But overall there are more than 40

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types of taxes. So we can painlessly renounce some of them. It goes without saying that the rate on them will almost certainly change. The rights should be precisely prescribed; chaos reigns here now. Taxation of the income of physical persons is a special question. The average wage at 70-80 dollars does not leave much room for maneuvering. On the other hand, it is ridiculous when we have practically no progressive scale of taxation of personal income.

It turns out that if you earn, say, R55 million you pay 30 percent. And for hundreds of millions and billions and even tens of billions, it is also 30 percent. You do not see anything like that in any country with a normal economy and a normal tax system. I am not saying that the "new Russians" should be left with nothing but "pocket change." But with a very high income, you should certainly pay more. Once again the rates are the question. In my view, they should be increased.

I know that there are proposals to fundamentally revise the present tax system. They do not seem convincing to me. The tax services and taxpayers have only just adapted to the new conditions, and then everything is turned upside down. While we are examining, scrutinizing, and adapting, we will lose trillions of rubles. I work in the field, I know.

[Yevgenyev] Fewer than 2 percent of the taxpayers are directly audited in Germany.

[Gusev] But look at their technical base. It is not difficult to guess that everything here relies on financing. Nonetheless we are now realizing a pilot project of the International Monetary Fund. Putting the taxpayer on the rolls, delivering declarations, checking them, and selecting declarations for direct control—the level of all the work is changing. We adopted this project in two tax inspection offices—at the Taganka office in the capital and in the Lyubertsy office near Moscow. We will set it up in Astrakhan and Novgorod Oblasts too in the near future. And next year we will begin to disseminate it throughout Russia.

*Implications of Enterprises Excessive Taxation Examined

954E0877A Moscow TRUD in Russian 20 Apr 95 p 3

[Article by Sergey Shoyko, general manager of an independent stock information and analysis center: "High Taxes Are Hindering the Economy"]

[FBIS Translated Text] It absolutely does not matter what our economic system is called. Its attractiveness to or unacceptance by millions of Russian citizens depends not on the name, but rather, on how they fare under this system. I cannot emotionally or intellectually accept the opinion held by many professional economists that the transition to the new system will inevitably be accompanied by a lowering of the public's standard of living. In order to improve the living conditions of each of us, what is needed are not voluminous economic programs, but rather, simply the common sense of those who make state decisions.

For almost 10 years now, all the musical chair-playing leaders of executive and legislative authority have been chanting: "Our economy needs investments!" It is hard not to agree with this: in order for the plants and factories to operate and to produce quality goods and for the workers to receive high wages, it is necessary to have money. Investments are precisely the money which is needed in order to buy raw materials and new technologies and to hire people to work.

However, life shows that neither formidable decrees and edicts nor foreign handouts will improve the investment situation. Everything spreads to somewhere and, in the end, is turned into currency and is sent abroad. Even those Russian citizens who cannot afford to open an account in a Swiss bank are not falling behind. In 1994, more than $20 billion American in cash were imported into the country and the public bought them up at the exchange offices for rubles. While they lie around in "stockings," this gives people a certain illusory reprieve from inflation. But, as soon as a relatively large number of people decides to remove them from there, the same thing will happen with the dollar as happened with the ruble. This money supply (comparable with the country's budget) simply cannot be secured by goods! The West also will not tolerate shifting the blame to someone else. It will force the Central Bank to adjust the control over the issuing of permits for the exporting abroad of currency by private persons. As a result, the paper cut in the USA will thus remain paper in Russia.

So, no matter what we do, everything will turn out to be the constructing of potentially explosive pyramids: out of the MMM notes, out of the state short-term bonds and out of foreign currency. So why is this happening?

Given in the chart is a diagram of the flows of the movement of capital within the country. Operating enterprises can be divided into profitable and unprofitable ones. The highly profitable enterprises are producing the main share of the national income. Subsequently, the income earned by them is divided into three main flows: taxes, the enterprises' in-house investments to support their own production and the payments to the enterprises' workers and shareholders. From the tax receipts, the state budget allocates subsidies and state orders to those enterprises which cannot maintain themselves on their own. Part of the public's incomes is spent on personal needs and part (by means of the purchasing of securities) is invested in the economy. If, at the same time, the public makes use of the services of investment funds, then the investments (minus taxes) will purposefully go to those enterprises which, in the specialists' assessments, promise the highest profit.

It is easy to note: there is one reason for the fact that the flows of investments look like little drying-up streams—high taxes. The state is taking too much away from the

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Flows of Capital and Taxes

Key:—1. The Public's Incomes—2. Profits—3. Taxes—4. Enterprises' In-House Investments—5. Investment Funds—6.High-Profit Production—7. Unprofitable Production—8. State Budget—9. Fund Investments—10. Subsidization of Unprofitable Enterprises

well operating enterprises. This makes those enterprises which are used to living off the budget more dependent and stops those enterprises which can and want to develop faster from getting on their feet. As a result, the Russian economy's growth is being maintained artificially, the production of quality domestic products is being curtailed and the stores are being filled by gaudy and cheap overseas articles.

One more phenomenon, unparalleled throughout the world, is occurring in our country: the investment activities of voucher funds are also being taxed. This not only reduces the share of investments in the most profitable enterprises, but is also reducing to zero the revenues of their shareholders. Would an intelligent person give his hard-earned money to a fund to invest in enterprises, if he has no hope of deriving a profit from this?

Today, we are facing the danger of losing all the results of voucher privatization. People, having exchanged their vouchers for shares of enterprises, are gradually coming to understand that enterprises smothered by taxes will not be able to pay them any appreciable dividends and are gradually letting their shares go for next to nothing.

The majority of those who acquired shares of investment funds are also finding themselves to be in a far from the best position.... Let us do some simple calculations. Take two enterprises: weak enterprise A, which has an annual profit of 50 percent, and promising enterprise B, which is producing an 80 percent profit. (The figures are arbitrary.) Assume that the charter capital of these enterprises is identical: during privatization, it amounted to 100 million rubles [R] for each enterprise, while, after indexing, it correspondingly reached R2 billion. Assume that, during the course of privatization, a voucher investment fund acquired 10 percent of enterprise A's shares, which may produce for its shareholders an income of: R 2 billion times 0.5 times 0.1 = R100 million.

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But enterprise B is more profitable than enterprise A by 60 percent: (80 minus 50 equals 30, divided by 50) equals 0.6 equals 60 percent.

Common sense says that, if the profitableness of enterprise B is 60 percent higher than that of enterprise A, it is necessary to sell enterprise A's shares and to buy enterprise B's shares. By doing this, the investment fund will not just enhance the well-being of its own shareholders. The increase in the demand for enterprise B's shares and the decrease in the demand for enterprise A's shares start an important market mechanism. If the enterprises need additional money, they will issue more shares. It is clear that the investment funds will eagerly buy enterprise B's shares and will not invest money in enterprise A's shares. Thus, additional money for development will be received by the very enterprise which is operating better. If this procedure becomes the rule, this will improve the economic situation as a whole and will enable us to get out of the crisis.

However, let us look at what is happening in our country. Assume that an investment fund makes the decision to sell enterprise A's shares and to buy enterprise B's shares. Assume that it manages to do this for the nominal price after indexing. Since the shares it has were listed at the old price: R100 million times 0.1 equals R10 million, then, by selling A's shares, it will receive a fictitious "income": (R2 billion minus R100 million) times 0.1 equals R190 million.

After paying taxes, no more than R120 million will be left in the investment fund. For this amount of money, it is possible to buy only: R120 million divided by R2 billion equals 0.06 equals 6 percent of enterprise B's shares. Consequently, the supposed income of the fund's shareholders in this instance will not exceed: R2 billion times 0.8 times 0.06 equals R96 million.

Thus, because of the state's tax policy, it turns out to be unprofitable for the investment fund to support the more profitable enterprises. This is gradually destroying the funds as a consequence of the inflationary increase in management costs and is holding back the development of the economy as a whole. The question comes to mind: who is responsible for the breakdown of the entire investment sector?

The cause of the calamitous investment situation in Russia is no secret to anyone. The people's elected representatives, who adopt the laws on taxation, are unable to eliminate the cause completely. It is just necessary to remember that even the largest savings of budget resources, in and of themselves, will not create wealth and prosperity for Russia. It is useless to redistribute crumbs through the budget. It is also necessary to create such economic conditions as would make it profitable for Russian citizens to invest the monetary fruits of their labors in the domestic economy and not in someone else's.

*Shadow Economy Continues To Elude Tax Police

954E0848A Moscow DELOVOY MIR in Russian 4 Apr 95 p 8

[Unattributed article: "Tax Police Continues Gaining Power"]

[FBIS Translated Text] The Department of Tax Police summarized its activity for 1994. Principal efforts were focused on revealing violations of the law and crimes that could cause considerable harm to the economic security of the government associated with the shadow economy involving laundering of capital obtained illegally, the outflow of foreign currency abroad, etc.

This is what the new law enforcement structure succeeded in accomplishing:

Table 1

Main indexes	1993	1994
Number of violations of tax laws determined and interdicted in cooperation with the Tax Inspectorate	32,000	Over 57,000
Including big and especially big violations	3,175	8,312
Number of criminal cases initiated on the basis of Article 162, Paragraphs 2 and 3 of the Criminal Code of Russia	617	Around 2,500
Made available for deposit in the state budget	0.6 trillion rubles [R], $120 million, and 2 million FRG marks	R3.8 trillion, $258 million, and 165 million FRG marks.

Table 2 Number of Violations

Private property	3,754
Mixed Russian property without foreign participation	2,436
State property	342
Property of public organizations	350
Joint property with foreign participation	157
Foreign property	33

Table 3 Additionally Computed Taxes (Billions of Rubles)

Private property	718.6
Mixed Russian property without foreign participation	1,228
State property	226.7
Property of public organizations	136.9
Joint property with foreign participation	108.8
Foreign property	36.1

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The results produced during the year confirm an alarming increase in the number of violations of tax laws and in the amounts involved in tax dodging in Russia as a whole. In 1994, for instance, 399 violations of the law were revealed each involving a sum in excess of R1 billion concealed from taxation, including 53 cases with over R10 billion. Even considering the inflationary increase in the taxable base as well as the high degree of latency of particularly large concealments, there is still a substantial growth in such manifestations. The amount of additionally computed taxes in rubles in cases of big and especially big law violations came to 85 percent of the total sum. Last year 12,000 taxpayers not registered with state tax inspectorates were found engaging in entrepreneurial activity virtually illegally thus fully concealing their revenue (in 1993 more than 1,000 of them were found).

The manner in which big and especially big violations are distributed among various organizational-legal forms of economic management is reflected in Table 2 and Table 3.

Table 4 Number of Violations

Value-added tax	3,541
Road funds	837
Income tax	461
Tax on maintenance of housing fund	245
Property tax	163
Excise and other taxes	143

Table 5 Additionally Calculated Amounts (Billions of Rubles)

Profits tax	1,827
Value-added tax	675
Road funds	52.9
Excise taxes	47.9
Payments for use of natural resources	42.9
Income tax	15.4
Tax on maintenance of housing fund, and others	10.3

Of the total amount of additionally calculated taxes, 23 percent was generated by the trading and purchasing sphere, 33 percent by the production sphere, 26 percent by the intermediary sphere, and 8 percent by the credit and banking sphere. It is clear that the greatest harm to the revenue portion of the budget is done by tax law violations in the nonproductive sphere—about 60 percent.

The greatest concealments took place in operations with motor vehicles—28 percent of additionally calculated taxes; oil and petroleum products—26 percent; nonferrous metals—8 percent; consumer goods—7 percent; cash and securities—6 percent; alcohol and liquors—3 percent; electrical energy—1.5 percent; and agricultural products—1 percent.

The manner in which big and especially big violations are distributed with regard to the forms of tax is shown in Table 3.

Certain problems which sharply lowered the effective operation of federal tax police organs were clearly differentiated. In particular, the mechanism of making tax violators answerable was highly unorganized. Last year only 2,500 criminal cases were initiated on the basis of materials yielded by inspections, but only 200 people were convicted. The problem is that the tax police do not have the right to conduct investigations, and they transfer cases involving tax crimes to investigative organs of the MVD and the procurator's office, which are overloaded as it is. The same situation exists in the courts as well. The creation of an investigative arm in the tax police could change the situation.

Problems of financing may also complicate the growth and development of the new law enforcement agency. On 1 January 1995 the credit indebtedness of the government, with regard to money allowance and back pay for workers and employees, came to about R15 billion. In 1995 the situation may be aggravated further; only 23 percent of the financial means required for operating the tax police organs have been allocated. That will freeze the realization of programs for material and technical backup and social development while promoting the personnel drain which is already noticeable.

Action against the tax inspectorates and tax policy by the criminal elements is intensifying. It is starting to be a real threat to the life and health of the agents. From threats of physical harm and acts of arson, representatives of criminal and crooked commercial structures are shifting to serious crime. Some 249 cases of assaults on agents of the tax agencies were recorded in 1994 (129 cases in 1993). In light of that 35,000 measures were carried out to protect them.

Today tax police know of 150 different methods which enterprises and particularly commercial structures along with physical bodies use to avoid taxes. To that end they lower revenues (profits) and the value of some items subject to taxation, conceal use of property for lease, conduct double bookkeeping when several accounts are opened in different banks which are not reported to the tax organs, exaggerate the manufacturing cost of products that are sold, fail to keep books, destroy documents, etc.

Civil Aviation Management System Found Defective

954F2128A Moscow IZVESTIYA in Russian 20 Apr 95 p 4

[Article by Igor Andreyev: "The Air Crash Near Mezhdurechensk: What the Flight Investigation Showed"]

[FBIS Translated Text] *The recently concluded investigation of the crash of an A-310 Airbus near Mezhdurechensk has unfortunately revealed not only the participation of children in the control of the destroyed craft, but profound defects in the control system of civil aviation in Russia itself. The most active role in ascertaining the causes of*

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the tragedy, in defiance of all common sense and international practice, was conceded to those who had certified the aircraft according to Russian standards and given it license to our skies.

In those terrible minutes of 22 March 1994, when the son of the aircraft commander Eldar (IZVESTIYA No. 201, 1994) was at the controls, the aircraft, it seemed to him, continued to turn independently. The increased bank therein remained unnoticed by any of the pilots in the cockpit. The adolescent continued to hold the controls tightly in a position close to neutral, which, as is inherent in the design of the aircraft, led to the "overpowering" of the autopilot and its disconnection from the bank control linkage. The longitudinal "component" of the autopilot continued to operate, and the automatic device, trying to restore the loss of lift due to the increased bank and preserve horizontal flight, brought the nose of the aircraft more and more up. Ideal conditions took shape for the stall of the airliner into a spin, and this is what ultimately happened. The interference of the boy with the controls—I emphasize, not catastrophic in and of itself—led to the fatal disconnection of the autopilot and the subsequent development of the roll. Had the pilots noticed in time that the roll control had passed to manual mode, they could have instantly restored the proper attitude of the plane without any problems whatsoever.

I am relating these technical details in order to clarify that it was namely the absence in the cockpit of a separate signal to the pilots of the switch to manual control that played a fateful, if not the main, role. The makers of the aircraft are not to blame here. They designed the aircraft according to European standards, for their own people, for pilots prepared to maneuver and act according to their flight regulations. The Russian specialists who certified it for Russian aviation and were obligated to check out the A-310 for conformity to the thousands and thousands of clauses of the so-called "Airworthiness Standards of USSR Aircraft" (there is, by the way, no analogous Russian document yet) did not require that the aircraft be equipped with the customary and simple alarm for our crews. The standards according to which any aircraft of foreign or domestic make is checked out here, meanwhile, unequivocably oblige the designers to equip it with an audio or light signal that is "easily distinguishable from the seats of both pilots." Information of this sort, strictly speaking, is brought up on the common display on the Airbus, but the condition of "ease of distinguishability" is not completely satisfied—especially in an emergency situation, stressful for the crew, such as indeed took shape on board the doomed A-310.

The agency that certified the A-310 was called the Aviation Registry of USSR Gosavianadzor [State Aviation Oversight Committee]. The disaster, however, is not that in 1991 it overlooked one specific feature of an aircraft that crashed in 1994. I would risk asserting that the genuine causes of the tragedy could be left unmentioned by not requiring the most active collaboration of French specialists, leaving the investigation an exclusively national one. The government of the RF last year named the International Aviation Committee (MAK) the principal organization responsible for clarifying the circumstances of air accidents today, and to which the Aviation Registry went in full and under the same name after the break-up of the Union. The person heading the registry, whose signature is on the Airbus certificate, became part of the government commission clarifying the circumstances of its demise!

IZVESTIYA has expressed as early as last summer (No. 125, 1994) the uneasiness of specialists from the Ministry of Civil Aviation, today the Department of Air Transportation (DVT) of the RF Ministry of Transportation, at the concentration of the functions of certifying aircraft and investigating their accidents in the same hands of an international, essentially non-governmental organization. There is the temptation, you will agree, if God forbid something happens, to divert attention away from one's own sins. My contacts at the DVT moreover feel that the MAK was not created for these roles at all. Founded in the hope of a unified airspace for the collapsed Union, the committee, it was felt, would represent the former republics with the [ICAO] and other international organizations of civil aviation. Most of the CIS countries have in fact joined the ICAO and need no intermediaries. That has, in the opinion of DVT specialists, prompted the MAK to obtain new functions for itself.

As soon as the joint efforts of Russian and French experts from Moscow, Paris and Toulouse (where Airbus Industries has its headquarters and plant) began to clarify the seemingly puzzling circumstances of the crash, shortcomings in the 1991 certification began to surface. And since the officials of the former Aviation Registry and USSR Gosavianadzor, today staffers at MAK, were part of the working and governmental commissions, they tried to deflect attention away from their own sins. A member of the official investigation team wrote a personal opinion to the report. Its essence was to specify domestic standards of airworthiness, having "fitted" them to the design of the lost aircraft. That is, the requirement to notify the pilots immediately of the switch-off of the autopilot was deemed... superfluous. DVT experts meanwhile note that Russian aviation should be proud of the fact that our standards are stricter than American ones and the European ones based on them. A member of the governmental commission and former chief of the Aviation Registry called upon his colleagues to ease the phrasing of the investigation report somewhat, saying that we would be undermining the reputation of Airbus Industries and casting a cloud over its products, and would be forced to halt the flights of the Airbuses...

There is perhaps no need to return to the disaster over Mezhdurechensk were it not for another one that nearly happened recently with a domestic Tu-204. A so-called technical flight to Sochi was carrying journalists to

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acquaint them with the new aircraft. There was internal destruction of an engine while in the air, and the aircraft made a forced landing at Rostov. Speaking in the strict language of the documents, there was no air accident. An incident had occurred that did not fall under the jurisdiction of MAK, responsible, I repeat, for investigating namely accidents. What does the committee do? They sought at all levels the right to investigate this incident as well. Why? Just because, my colleagues at DVT feel, its specialists are also engaged in the certification of the Tu-204. And the corresponding report was already, one might say, in the wings.

But the event with the "raw" but almost certified aircraft in no way moderated the ambitions of the committee. Not very much acknowledged as an international organization, trying to embrace the entire tottering CIS at the international level, MAK has prepared for the signature of V. Chernomyrdin the draft of a new, fateful decree. Judging from a fresh paper dated March 31, the government of the RF is to grant MAK "the authority to conduct negotiations, with the participation of concerned federal executive bodies, in the realm of the mutual recognition of airworthiness certifications with the aviation authorities of foreign states..." There is not the signature of a single representative of the principal "federal body" in aviation—the Department of Air Transportation—among the signatures of the officials affixed to the draft.

What do you think would happen if an agency obligated to check out the quality of products being supplied to a market is also permitted to investigate cases where people are poisoned by them? The answer is obvious, in my opinion: the forwarding agents, traders, or the buyers themselves would be to blame, not the producers of the good or those who certified it. This example is not far off from aviation, where a very similar situation took shape.

*Official Interviewed on Economic Criminal Activity

954E0875A Moscow DELOVOY MIR in Russian 11 Apr 95 p 8

[Interview with Mikhail Zotov, chief of the Department for Investigation of Organized Crime Activity in the Economic Sphere of the Moscow City Administration of Internal Affairs, GUVD, by Georgiy Chizhov; place and date not given: "The Cost of Cheap Justice"]

[FBIS Translated Text]

[Chizhov] Mikhail Nikolayevich, society views the increase in crime in recent years as the inevitable consequence of global transformations, while the economy, with its delayed reforms, is also apparently providing favorable grounds for criminal activity.

[Zotov] The nature of crime, of course, reflects the reality that has formed. Virtually every major commercial operation today involves banks, and almost 70-80 percent of the crimes being investigated by us are committed in banks.

[Chizhov] What kinds of crimes are they?

[Zotov] They include illegal acquisition of credit, failure to repay credit, securing funds with forged documents, and finally, embezzling money by bank employees, including using computer networks for that purpose. Embezzlement techniques are becoming increasingly more sophisticated and unusual. It is possible to find an "antidote" only after a crime is committed and then not in every case. I will not even cite examples so as not to give someone useful advice: it is possible to repeat crimes by merely finding "one self" in a bank.

[Chizhov] Is it possible that the banks are not taking adequate measures to protect themselves?

[Zotov] Control is organized in a better fashion at the commercial banks. Most of the embezzlement took place at the Central Bank. You will recall the cases involving forged letters of advice that caused so much commotion in 1992-1993. At that time a large number of unclaimed letters of advice accumulated at the Central Bank and the leadership could think of nothing better than to invite personnel from commercial banks to help. It is therefore not surprising that criminals managed to gain access to the Central Bank and then take the letters of advice home, replacing them with some of their own. Four or five different methods of embezzlement were utilized. Also, you realize that it is extremely difficult for an ordinary person to get access to the Central Bank. I do not think that I would ever be able to get in there, but some unknown clerks managed to gain access to documents worth many trillions.

[Chizhov] I hope someone was held responsible for such a blunder.

[Zotov] I do not believe so. At any rate we were unable to prosecute anyone except those directly involved in the crime since in the existing system it is difficult to find guilty individuals.

[Chizhov] Don't existing laws establish the responsibility of every official?

[Zotov] Legislation in general is trailing behind. Even the most elementary mechanisms have not been worked out. Remember, in the West a person is automatically imprisoned for failure to repay credit. In our case, however, nothing can really be done. The guilty individual has to be summoned to civil court and ordered to engage in arbitration, but in order to deliver the summons it is often necessary to pursue him for up to three years.

Tax crimes abroad are also treated rather formally. If you do not pay your taxes, you will go to prison, unless of course, you can prove that you were right. In our case, however, the burden of proof lies with the investigator. At the same time after months of study, the courts return cases to us for additional investigation. The judges are simply not sufficiently skilled in criminology and are unable to grasp complex embezzlement techniques.

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[Chizhov] Tax crimes probably comprise a significant portion of the cases that come to you.

[Zotov] Surprisingly no, even though everyone knows that the situation with the payment of taxes in the country is catastrophic. The functions of tax organs, investigative organs, etc., however, are not adequately delineated in our case. Thus, tax organs were granted the right to conduct inquests and investigations. How many cases are currently in the inquest department of the capital tax police? Not a single one. How many cases have they sent to court on their own? Not one, I believe. How many cases have we forwarded over the past year? Just one (having instigated nine cases).

The desire of tax organs to obtain swift results causes poor quality of the inquests being conducted; this, in turn leads to dismissal of cases. For some reason tax organs do not want to cooperate with us. In the famous "Mavrodi case" for instance, no one came to the investigative department on time. The case was forced on us, literally, several hours before it was necessary to release him from custody. Now attempts are being made to determine who "overlooked" the important documents at that time.

At present, the tax police is requesting its own apparatus. The idea is not intrinsically a bad one and complies with world experience, but under our conditions this will hit the investigative personnel hard; everyone will be leaving me and going over to the tax organs.

[Chizhov] Work there is that popular?

[Zotov] They just pay more over there, and there are constant bonuses in addition to a percentage of money confiscated into the state treasury. My investigator gets $80-$100 (that includes the mayor's supplement). The law on militia prohibits him from working on the side. How is he going to feed his family?

As a result the investigative department of the city had a two-thirds personnel turnover in the past two-three years. Experienced personnel go to commercial structures. They are replaced with 18-year-old boys who have to be trained for several additional years. When I came to work in the agencies, some 95 percent of the investigators had a higher legal education. At present only 52 percent have a higher legal education in Russia, while 15 to 20 percent have a secondary legal education, and the rest have not studied law at all. It becomes necessary to accept chemists, geologists, and sea captains since investigators are needed. At the same time the cases are becoming increasingly more complex, particularly in the field of economics. You can imagine what level of investigation we can provide.

For some reason, the investigators' needs are being ignored by the MVD. We are not even asking for additional budgetary financing and it would be possible to allocate a certain percentage of confiscated property for agent bonuses. For some reason such a practice exists in the tax organs but not in the investigative ones. It is hardly necessary to mention that cheap justice costs too much. Corruption among our investigators is inevitable.

[Chizhov] In general you have a lot of complaints against the government.

[Zotov] I have not had a chance to really talk about them yet. The legal confusion in the government greatly complicates investigations. Let's say a firm is created and an account opened. For several months it remains empty. Then a large amount passes through the account and disappears. We start searching for the ends: the founder is a fictional individual; the director is also a fictional individual; and the legal address is false. Or, let us look at transactions with cash. It is currently possible to withdraw a large amount in cash from an account only to purchase agricultural products. The banks, however, do not even check to determine whether the firm is really engaging in such purchases, nor do they check passport numbers and residence permits when accounts are being opened. The law must require them to check with the militia.

[Chizhov] Announcements of the type "will expose" and "will furnish legal address" are being printed in all newspapers. Even the telephone numbers of potential law violators are being indicated. Do you publish such announcements?

[Zotov] The UEB [expansion not provided] and RUOP [expansion not provided] exist for that purpose. Our duties do not include operational activities.

[Chizhov] It seems that your relations with domestic colleagues leave a lot to be desired. What about the foreign colleagues?

[Zotov] We do not even have any agreements on legal assistance with countries; it takes months to receive a response to inquiries. For instance, it is difficult to work with Hungary and Bulgaria. Israel does not extradite criminals; some are living there on money stolen from us without fear of prosecution. It is difficult to reach agreements with CIS colleagues. Not a month passes without someone coming to us for assistance. Each time, we do everything we can. Today my investigators, however, are spending their third day in Minsk in the reception room of the republic procurator's office and are not being permitted to conduct investigations because the letter they brought is signed not by the deputy procurator general of Russia but by an official one rank below that.

[Chizhov] It is amazing that under such conditions you still manage to complete investigations and bring the cases to trial.

[Zotov] Whether the case goes to trial does not always depend on us. Members of our legal profession have invented a law for themselves that allows them to violate other laws. I have never heard of even one lawyer accepting responsibility while at the same time they are

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constantly working as liaison between the detainees and the criminal groups on the outside and disrupt and prolong investigations. By law every defendant has the right to an unlimited number of lawyers. Just imagine: 100 volumes on the criminal case and 10 defendants each with 10 lawyers for a total of 100. Multiply 100 by 100. How many years will they need to study the case? Or, let us assume that there is only one lawyer. He studies the case, and as he gets to the page before the last one the defendant says: "I do not want this lawyer. I want another one." The new defender starts again from the beginning. It is possible to repeat that trick indefinitely.

[Chizhov] How are problems like that resolved in world practice?

[Zotov] There is a different political culture in civilized countries of the world which will take us a long time to attain. Is our law enforcement system even ready for jury trials? Alas, in 1994 70 percent of all cases in a jury trial were returned for additional investigation. That index is 10 to 12 times higher than in ordinary trials. What is the problem? It is just simply that jurors sweep away all evidence obtained in violation of procedural norms. The quality of our investigator or operations officer, however, is such that it makes it impossible for him not to commit violations. When the case comes to an investigator, as a rule it is impossible to fill in the gaps and such additional investigations are usually of no help. I know that this sounds shocking, but this is our reality.

*Exhaustion of Metallurgy Sector Material Base Reported

954F2138A Moscow SEGODNYA in Russian 18 Apr 95 p 13

[Article by Yevgeniy Spiridonov: "Metallurgists May Soon Set Off on Forced Leave; Sector's Ore-Raw Material Base is Close to Exhaustion"]

[FBIS Translated Text] As the correspondent from BIZNES SEGODNYA was told at Roskommetallurgiya [Russian Federation Committee on Metallurgy], specialists from the committee, Minekonomika [Ministry of Economics], Minfin [Ministry of Finance], Roskomprom [Russian Federation Committee on Industry], Roskomnedr [Russian Federation Committee for Geology and the Use of Mineral Resources], and Minpriroda [Ministry of Environmental Protection and Natural Resources], through their joint efforts, are developing a mechanism for replentishing the steadily dwindling capacities of the ore-raw material subsector of metallurgy, and will present this plan at the meeting of government scheduled for June of this year.

In the words of Roskommetallurgiya First Deputy Chairman Vsevolod Generalov, the volumes of ore extraction of precious and non-ferrous metals have declined from 62 million tonnes in 1992 to 42 million tonnes in 1994, i.e., by 30 percent. In the last 3 years, the capacities for commercial iron ore have decreased by 16 percent (14.1 million tonnes), while its deliveries have declined by 32 percent. The loss of this base is commensurate with the volume of mining performed by such a large enterprise as the Lebedinskiy GOK [ore-enriching combine].

According to predictive estimates, by the end of 1995 the overall exhaustion of capacities for mining ores of nonferrous metals will comprise around 35 percent, including for copper ore—50 percent, for aluminum and lead-zinc—43 percent, and for tin—60 percent. This despite the fact that already today the volume of annual purchases of copper, zinc, and titanium concentrates, alumina, and manganese ferroalloys abroad comprises $400 million.

Due to the fact that work on compensation of the dwindling capacities is practically being discontinued at the enterprises of the mining subsector, the head of the Ore Mining Industry Administration of Roskommetallurgiya, Anatoliy Novikov, believes that a critical ratio of reserves and ore mining has been formed in most regions. If we take all the balance reserves of iron ore as 100 percent, then the Northwestern region (Olenegorskiy, Kovdorskiy, and Kostomukshskiy Ore Enriching Combines, which supply raw material for the Cherepovets Metallurgical Combine) accounts for 5 percent. At the same time, this region supplies 21 percent of all the mined ore. Fifty-seven percent of all the reserves are concentrated in the Central Chernozem region (Lebedinskiy, Mikhaylovskiy, Stoylenskiy GOKs, operating primarily for the Novolipetsk Metallurgical Combine), while 38-39 percent of the ore is mined here. At the Korshunovskiy GOK and the "Sibruda" ore mining association, which are located in Siberia, (West Siberian and Kuznetskiy Metallurgical Combines), the ratio of reserves to mining of ore are 12 and 14 percent, respectively. In the Urals region (Bogoslovskiy Ore Administration, Vysokogorskiy GOK) these figures are 16.7 and 25.8 percent, respectively.

From what we have said, we may conclude that without significant preparatory work in the course of the next few years, only the raw material base of ferrous metallurgy, located in Belgorod Oblast, may sustain itself. And accordingly, the most favorable in terms of provision with ore in this region is the Novolipetsk Metallurgical Combine. The Orsk-Khalilovsk, Magnitogorsk and Chelyabinsk combines are beginning to change over to the Central Chernozem region, since their nearby raw material base has been depleted, while their traditional supplier of raw material, the Sokolovo-Sarbayskiy GOK, gives preference to the Karaganda Metallurgical Combine since the break-up of the Union.

In the words of Anatoliy Novikov, up until 1991 there were 360 million rubles (R) (in 1984 prices) in centralized capital investments allocated annually for the development of ferrous metallurgy enterprises. Since 1992 their capacities are maintained only at the expense of the

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enterprises' own funds, with the exception of insignificant preferential state credits. Therefore, last year, in these same prices, the investments into GOKs comprised less than R100 million.

The president of the "Tyzahtsvetmet" concern, Anatoliy Tolstoguzov, reported that last year, at all the enterprises of Russia, there were around 500,000 tonnes of copper produced, which is 100,000 tonnes less than in 1991. In order to retain the output of refined copper at least at the same level during the next 2 years, the RAO [Russian joint-stock company] "Norilskiy Nikel" must invest R750 billion into the ore base and its enrichment. Yet its own funds can cover barely 40 percent of what is needed. The enterprises of the Urals region (Bashkir Copper-Sulfur Combine, Gayskiy, Urupskiy GOKs, Safyanovskiy mine and others), which must invest no less than this sum in their development for these same reasons, have around R200 million in their own funds. Due to the shortage of investments, the volume of output of copper in concentrates by 1998 may decline by one-half at the mining enterprises of the non-ferrous metallurgy sector.

The situation with the ore base of the aluminum industry is being formulated in such a way than in 5 years there will be no more alumina in Russia. Already today, domestic raw material provides for only one-third of the annual production of aluminum, which has a volume of around 3 million tonnes. The Southern Urals Bauxite Mine is finishing up its reserves, and the aluminum plants cannot tie their prospects to it. At the Northern Urals Mine the reserves are greater, but the quality of the raw material there is worse than that received from abroad. Moreover, there are difficult mining-technological conditions at the mine: The depth of the excavation is almost 1 km, and there are extensive water-logged areas. However, if Russia loses even this base of bauxites, specialists believe that prices on foreign alumina will immediately jump up. And the provision of the domestic aluminum industry with raw material will generally become problematic.

Since there are no more centralized capital investments, state investment credits are scanty, the enterprises' own funds are meager, and the extra-budgetary fund has not been formulated, the ore mining enterprises have only one way out under market conditions: To seek a wealthy master, who would be interested in their development. But even though all the GOKs have already been converted to stockholding, not one private investor, with insignificant exceptions, risks investing money into a type of production which will give a return only in 5-7 years. However, the problem lies not only in the fact that the mining enterprises of metallurgy do not have the funds for development. Metallurgists are also losing something even more valuable—time. We must consider the inertial character of the ore base. If we do not continually replentish its depleting capacities, then between the mining of one stratum and prior to the start of exploitation of another there is a gap for the duration of time which is necessary for preparation of the new capacities. And this is about 10 years.

So as not to give the metallurgists a forced leave, specialists at Roskommetallurgiya, together with workers of interested ministries and departments, are puzzling over how to set in motion the mechanism of reproduction of the ore-raw material base. They are being prompted in their decisions, we might add, by no less interested persons—the directors of metallurgical enterprises. For example, the general director of the Bogoslovskiy Aluminum Plant, Anatoliy Sysoyev, believes that all aluminum producers must deduct at least 5 percent of their commodity production and direct these funds to the development of the Urals bauxite base so that it may sustain itself for about another 10 years, until new deposits of aluminum raw material are developed, as for example the Timanskiy (Republic of Komi).

As Anatoliy Novikov explained, the committee has been trying to realize this scheme of support of capital construction in the subsectors of metallurgy for many years now, through the legalized extra-budgetary fund. But not once has it been able to get the necessary funds. At the initiative of the raw material consumers themselves, some funds went to the mining enterprises. The Magnitogorsk Metallurgical Combine, for example, deducted part of the funds for construction of the Yakovlevskiy GOK, which has been dragging on for over 20 years now. At the same time, the metallurgists understand, said Mr. Novikov, that it is necessary to invest funds into maintaining the capacities of the mining enterprises, and they are ready to do so. However, there is no legalized mechanism for re-channeling funds from the metallurgists to the miners.

As a variant for solving the problem, specialists propose introducing an investment mark-up to the price on metal in case of participation of the metallurgical enterprise in the development of the ore base. Another solution is centralization of the funds of raw material consumers in the extra-budgetary fund of Roskommetallurgiya. At the decision of the council of directors, its funds may be directed toward various raw material objects or others. Obviously, in this case the specialists do not support the idea of consolidation of the extra-budgetary funds in Minekonomika. There are many holes in the Russian economy, they say, and the money of the metallurgists transferred to the fund may dissolve in a moment.

The tax system also does not consider the specifics of the ore-raw material base, the experts believe. All mining enterprises pay for the mineral resources, and for reproduction of the mineral-raw material base. But, aside from this, they are also charged for waste disposal, despite the fact that they already bear expenditures for this disposal under the project technology, which provides for the normal condition of the environment. Thus, it turns out that there is a double ecological tax. The mining enterprises, on par with all organizations, must pay into the local budget for maintenance of roads,

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despite the fact that their technological transport does not use the general use roads. And the sums charged are very high, since the tax is based on the huge engine capacity of the quarry transport vehicles.

As the Roskommetallurgiya specialists maintain, today ore mining enterprises may direct toward maintenance of their capacities the profits, depreciation, and revenues from the sale of their own and state-held shares for investment programs. However, the most they will be able to realize from this will be half of the funds necessary for development of the capacities.

*Battle To Privatize Strategic Missile Defense Developer

954E0874A Moscow TRUD in Russian 18 Apr 95 p 2

Article by Fedor Yemchenko: "Swoop Down and Buy—But Not To Privatize, for Example, the Kantemirovskiy Division?"

[FBIS Translated Text] The collective of the Radio Instrument Building Scientific Research Institute (NIIRP) has been struggling with apologists of privatizing in the Russian way for over a year now. It is still hard to predict the final result. The point is that two, as it has turned out, approximately equal forces have clashed over the unique property: on the one hand—those defending the interest not only of the collective, but also of the state, as well as the Russian Federation Law, and on the other hand—a group of high-ranking, influential officials.

According to procedure, however, the Radio Instrument Building NII is the main developer of the Russian scientific-experimental program, Planet, aimed at creating promising systems of guaranteed protection against missile and air attack. This institute, in cooperation with other enterprises, developed a system of A-35 PRO [antiballistic-missile defense], deployed around Moscow. A system of second generation antiballistic-missile defense (A-135) has now been accepted for operation. It, as specialists claim, is the most modern of the presently existing strategic antiballistic-missile systems. It ensures the interception ("close" and "long-distance") of the enemy's warheads and their destruction, with the aid of nuclear atmospheric explosions.

Even this information, it seems, is enough to make one realize that only people for whom the country's security and its intellectual capital is a matter of no importance could take it into their head to privatize an institution like this.

Nevertheless.... In 1992, during the reform of the administrative structures of the former main administration or, as it was called, the Vympel Central Scientific-Production Association, it was decided to transform Vympel into an interstate joint-stock corporation (MAK), and N. Mikhaylov, general director of the TsNPO [Central Scientific-Production Association] became its president. The corporation was to have combined enterprises of Ukraine, Belarus and Russia. On the instructions of A. Ivanenko, deputy chairman of RF Goskomimushchestvo, NIIRP was transferred to MAK as part of the charter capital on the Russian side. At that time N. Mikhaylov convinced everyone that this was done to maintain and develop the top scientific-intensive technology of antiballistic-missile defense.

Time, however, showed the opposite. Ukraine refused to enter the corporation, and Belarus had only an eight-percent share in the charter capital. In 1993, the Russian government issued a decree on privatizing NIIRP. Again in the guise of the same "sauce": allegedly to maintain PRO technology in Russia. V. Polevanov, the former chairman of the GKI [State Property Committee], saw this privatization as an encroachment on the interests of the state, and promised to get the institute out of the corporation. He did not succeed, however. He was transferred to a different job. The State Institute was turned into a joint-stock company of the open type.

The work collective's council appealed to the Procurator-General about this. But since the evaluation of government decrees is not within the jurisdiction of the procurator's office, V. Davydov, Procurator-General, wrote a letter to Vice-Premier O. Soskovets.

"The Statute on including the NII in the corporation," the procurator informed him, "was passed in violation of articles 13 and 33 of the RF Law 'On Enterprises and Entrepreneurial Activity.' The NIIRP, according to the Charter, was registered by the Registration Office on 20 February 1992, and was at that time an independent state enterprise with property under its full economic authority, and consequently, in accordance with the law and Edict of the President, it would require the agreement of the work collective to decide on its entering the corporation."

This resolution, let us explain, was passed by an assembly of the board of directors, the trade union committee, the scientific-technical council and the chairmen of the trade organizations of the structural subdivisions. The question of privatizing NIIRP as part of the corporation was examined for the first time at a conference of the institute's work collective on 23 June 1993. The results of the voting made it impossible to pass this resolution. The organizers of the conference, however, worked on manipulating things. Information that the collective had allegedly agreed went to the legislative bodies.

Ignorance of the procedure put many people in a bad spot: the necessary majority—is not just "plus one vote." The people, therefore, probably knowing where this "privatization" would lead, appealed to the collective and explained to it "what was at the bottom of it." The next day, the work collective conference elected a council, which was entrusted with clearing up all the legal fine points of this collision.

In January of last year, on the initiative of the STK [work collective's council], the collective again assembled at a

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conference and passed a resolution to consider the documents on privatization as not subject to execution, since they contradicted RF legislation. After the conference, it was decided to appeal to the Higher Arbitration Court, which expressed the unanimous opinion—right was on the side of the work collective.

The government was in no hurry to put this mistake right, however. Moreover, Anatoliy Chubays wrote a statement on introducing a protest against the VAS [Higher Arbitration Court] resolution. In his opinion, it was not the government, but the court that had made the mistake.

While the collective's argument with the privatizers was going on, the institute fell apart completely. Orders from the Ministry of Defense were cut back 10-fold. For four or five months the people received no wages. V. Savelyev, director of NIIRP was relieved by MAK Vympel of the position he occupied, "because of his state of health." B. Vinogradov was named acting director. Daughter enterprises and partnerships with limited liability were created out of the structural subdivisions....

It is possible the readers will ask the question: just what is it that so attracts privatizers to this institute? Of course, the property. The Institute has 60 hectares of land, about 20 buildings and structures (and what buildings and structures!), developed engineering networks and infrastructure. All this is assessed at 500 million rubles [R]. How could you resist not "privatizing" all this for a song!

The other day, employees from the Institute—Leonid Yefimov, chairman of the STK, and Vitaliy Zharkovskiy—dropped in at the editorial office.

"Well, how goes it?" I asked.

"Look here," they showed me a paper. "The Moscow Arbitration Court passed a resolution 'to recognize as invalid the act of registering the AOOT NII Radio Instrument Building (certificate of 21 June 1994, registration N 008629).'"

"Does this mean I can congratulate you?"

"Don't be in any hurry, our opponents will not give in so easily. This is too tasty a morsel for them...."

The dispute between the labor collective of NIIRP and the boards of directors of MAK Vympel and AOOT NIIRP must not be regarded only as a struggle for possession of the property. Today it is already acquiring another shade of meaning. In April, as we know, an International Conference on Extending the Force of the Agreement on Nonproliferation of Nuclear Weapons will be held. It is difficult to say right now the scenario the negotiations will take. In any case, right now the world is not so stable that Russia can forget about its security. It appears, however, someone wants very much to turn NIIRP into a joint-stock company of the open type. Swoop down, buy shares and dictate how best to protect Russia's interests. In this way one can, really easily, take up the armament well known from history: "Our land is great and abundant, but there is no order in it. Come and possess us"?

*Oil Investors Interested in Production Sharing Legislation

954E0873A Moscow KOMMERSANT-DAILY in Russian 15 Apr 95 p 2

[Article by Vadim Bardin: "Foreign Economic Regulatory Activity: Investors Await the Rules for Production Sharing"]

[FBIS Translated Text] There is no slackening of interest in production sharing on the part of foreign investors in Russia. The negotiations schedule is quite busy. Yesterday KOMMERSANT-DAILY reported on discussion of the Sakhalin-III project by First Deputy Prime Minister Oleg Soskovets and Japan's Deputy Minister of Foreign Trade and Industry, Yosichiro Sakamoto. All the fundamental issues with Texaco and Mobil Oil have now been resolved, according to the Oil Information Agency. On 17 April representatives from Exxon will engage in a marathon of negotiations. But in reality, the deciding word in attracting investors on a production-sharing basis is left to the Federal Assembly—the Law on Production-Sharing Agreements has only passed the first reading.

It cannot be said that production-sharing projects in Russia currently find themselves in a complete legal vacuum. The Law on Mineral Resources is in effect. It establishes the competitive basis for attracting investors who obtain licenses for the exploitation of our mineral wealth. And indeed, competitive bidding has emerged. There are presently about 25 bidding packages, including those in the preparation or conduct stage. It became clear almost immediately, however, that the Law on Mineral Resources itself would not suffice. First of all, the possibilities this law opens up for the investor are different from those afforded by the Law on Foreign Investments. It is unclear, for example, under what system investors fall—the national system (Law on Foreign Investments) or preferential system (Statute on Procedure for Licensing the Exploitation of Mineral Resources). Secondly, the problem of the economic nature of the license value is far from being resolved.

The presidential Edict on Issues in Production-Sharing Agreements, dated 24 December 1993, made note of but did not resolve the most significant problems in production sharing. The edict legalizes the basic principle of production sharing—the ability to pay taxes in kind. However, no progress was made beyond simple pronouncement of this principle. Strictly speaking, only the Federal Assembly is competent to undertake any innovations in the taxation sphere.

The absence of legal clarity is engendering a mass of practical problems. Issues to be discussed at the

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upcoming negotiations with Exxon boil down to the fact that the Americans believe the 52 percent share of "profit-yielding oil" insisted upon by the Russian side to be overstated. Also unresolved is the problem of the amount of tax on profit. The Exxon corporation agrees to 32 percent, but not 35 percent.

It is curious that the president did not wait for the legalization of production sharing before issuing his edict "On Priority Measures To Improve the Activity of the Oil Companies," conferring upon Rosneft—transformed from a state company into a joint-stock company with 51 percent of the shares secured for the state—the exclusive right over the course of three years "to effect marketing of the state share in production-sharing agreements." Thus, it is not only Western investors who advocate swiftest possible adoption of the law on production-sharing agreements.

In principle, these expectations are not at all without foundation. The draft law adopted in the first reading outlines those taxes that investors participating in production-sharing agreements (not necessarily foreign entities) pay in the usual fashion. Other payments are made within the framework of a production-sharing arrangement determined on a contractual basis. This ensures tax stability for the investor over the period of time the agreement is in effect. The draft law also resolves the problem of production sharing between Russian participants in an agreement (the Federation and its entities). One advantage the draft law has with regard to nearness of practical implementation is the fact that the package of required sub-legal enactments has virtually been finalized. As a result, we have every reason to believe that investors may expect the legalization of production sharing from our current Federal Assembly.

[Begin box] Production-Sharing Projects in Russia's Oil and Gas Complex (At Various Stages of Preparation; Foreign Investor and Region)

Elf Aquitain (France)—Volgograd Oblast

Total (France)—Kharyaga Deposits, Arkhangelsk Oblast

Texaco-Exxon-Amoco (all U.S.)—Arkhangelsk Oblast

Amoco (U.S.)—Ob Deposits, Khanty-Mansi Autonomous Okrug

Shell (Great Britain—Netherlands)—Salymskiye and Vadelupskoye Deposits, Khanty-Mansi Autonomous Okrug

Urals-ARA (Netherlands)—Khulturskoye and Slavinsk Deposits, Khanty-Mansi Autonomous Okrug

Exxon (U.S.)—Sodeco (Japan)—Chayvo Deposits

Mobil-Texaco-Exxon (all U.S.)—Sakhalin III

OMW (Austria)—Yakutia

Norsk Hydro (Norway)—Fibro Energy—Anglo-Suisse (both U.S.)—Tyumen Oblast [End box]

*Oil Exporters Violate Customs Legislation

954E0888A Moscow KOMMERSANT-DAILY in Russian 21 Apr 95 p 14

[Article by Aleksey Gerasimov: "Custom House Touched the Oil Cock"]

[FBIS Translated Text] The RF State Customs Committee presented data on violations of customs legislation by Russian oil exporters in 1992-1994. According to the data of the State Customs Committee, most exporter enterprises (including exporting oil on instructions from Russia's Government) violate customs legislation. For example, the quantity of oil and oil products detained on the customs border in 1994 increased 13-fold as compared with 1993. Last year the total value of illegally transported oil products (including oil) amounted to 572.9 billion rubles and the total amount of fines, to 8 billion rubles. The Customs Investigation Department of the State Customs Committee presented materials of several most characteristic investigations of illegal oil export to KOMMERSANT-DAILY.

Schemes of Oil Machinations

Aleksey Konstantinov, chief of the Customs Investigation Department of the State Customs Committee, and Vladimir Ostapenko, chief of the Inquest Department of the Administration for the Fight Against Smuggling of the State Customs Committee, presented information concerning oil export to a correspondent of KOMMERSANT-DAILY. According to them, most customs offenses are connected with an incorrect declaration: Oil exporters simply understate the volume of transported goods. If firms do not have an export license, companies act somewhat more craftily. At first they transfer oil to the near abroad allegedly for its refining on a give and take basis (that is, with the obligation to return the product of refining to Russia). However, nothing is returned to Russia. Everything is sold in the near abroad or in the West. It is interesting that sometimes oil was transferred duty-free to the near abroad under the pretext of its "temporary storage owing to the lack of conditions for its storage in Russia." According to Russian laws, this operation is not considered an export operation. However, as in the case of the alleged export for refining, as a confirmation of its reimport exporter firms gave false customs declarations.

According to Mr. Konstantinov, in 1994 for an incorrect declaration of goods and presentation of false declarations of import of oil products administrative proceedings were instituted against the Rosneft State Enterprise, the Transneft Joint-Stock Company, the Chernogorneft Joint-Stock Company (Nizhnevartovsk), the Tobolsk Petrochemical Combine Open Joint-Stock Company (Tobolsk), the MPV-Oil Limited Partnership, the Balkar Trading Joint Venture, the Yunifeks International Joint Venture, and other less known firms.

In the opinion of customs officials, oil companies, in an attempt to bypass the licensing of oil export, often

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establish with foreign partners joint ventures, the products of which (often this is simply oil) are exported. The point is that, according to Russian legislation, joint ventures have the right to export their own products without licenses and without duties (this right is given individually for certain projects).

Traditional customs violations also remain. For example, some traders, who do not have rights to export, bring tanks to the border and sell them there at half price to smugglers who have contacts in custom houses. This is also confirmed by the fact that quite a large number of offers for the purchase of oil products with delivery to some border railroad junction was noted on the over-the-counter market. As a rule, several thousand tonnes were bought up in such a way every month (the standard size of a batch of oil products was 50 tanks, each weighing 50 tonnes).

Some exporters act quite simply. They falsify documents, exporting oil and oil products from Russia to the address of men of straw.

Strange Incident With the Transneft Joint-Stock Company

On 18 May 1994 the State Customs Committee instituted administrative proceedings against the Transneft Joint-Stock Company. According to the data of the State Customs Committee, from 1 April through 29 July 1993 this firm transferred through its own pipeline 2.6 million tonnes of oil to Ukraine without a customs declaration, as well as without the presentation of a license for export and a contract with the Ukrainian side. As was established in the course of the investigation, the oil transferred to Ukraine, according to papers, was allegedly delivered to the Ukrnaftogazpostach Company for storage with appropriate acceptance and transfer certificates. Subsequently, however, this oil arrived for refining at Ukrainian oil refining plants and later oil products were sold.

In the process of these proceedings Yuriy Sipovskiy, vice-president of the Transneft Joint-Stock Company, who was interrogated, explained that Transneft dealt only with oil transportation and, on the whole, this firm was not interested in mutual relations between oil sellers and buyers. Specifically in this case Sipovskiy showed that Transneft transferred 2.6 million tonnes of oil to Ukraine "on oral instructions from the RF Ministry of Fuel and Energy."

Incidentally, it is interesting that at first Sipovskiy maintained that this oil was transferred to Ukraine not for its sale, but only for "responsible storage in connection with the impossibility of placing it on Russia's territory." However, during repeated interrogations Yuriy Sipovskiy changed his testimony and asserted that oil was transferred to Ukraine not for storage, but for refining—for use of the obtained oil products in spring agricultural work in Ukraine. According to information from the RF State Customs Committee, Ukrainians paid to the Russian side for less than one-half of this deal.

Yuriy Sipovskiy refused to comment on this entire incident to KOMMERSANT-DAILY. As a result, on the completion of the investigation the State Customs Committee fined Transneft 1,382 billion rubles (0.5 percent of the amount of illegally transported oil). The company admitted the illegality of the deal and in June 1994 paid the entire sum.

Kaliningrad Administration Let Down the Neftegaz Joint-Stock Company

According to the data of the custom house, at the beginning of 1992 the Neftegaz Joint-Stock Company concluded with the administration of Kaliningrad Oblast an agreement on the delivery of oil products produced from 1 million tonnes of oil to it. At the same time, in April 1992 Neftegaz received from the government a quota for the disposal of 1 million tonnes of oil. The Mazheykyay Nafta Oil Refining Plant, with which Transneft concluded an appropriate contract, was chosen as the base for refining. According to an agreement with the administration of Kaliningrad Oblast, the first batch of oil products produced from 590,000 tonnes of oil should have arrived in the middle of 1992. At the same time, part of the oil (220,000 tonnes) was transported to Lithuania by the Russian Baltneftegaz Company by power of attorney received from Neftegaz. A total of 370,000 tonnes of oil were transported directly by Neftegaz.

Oil was transferred through the Polotsk-Mazheykyay Oil Refining Plant pipeline (that is, from Belorussia to Lithuania) and this was registered as a "temporary export for refining." However, the Baltneftegaz Joint-Stock Company (subsidiary enterprise of Neftegaz) after refining sold oil products to some Kaliningrad partners. Nevertheless, these products never reached Kaliningrad Oblast, but were sold abroad.

Neftegaz attributed this to the fact that the leadership of Kaliningrad Oblast refused to buy the oil products, on which it initially agreed with the company. Therefore, Neftegaz was allegedly forced to store them in Lithuania in oil storage facilities of the Energiya Firm. This storage yielded losses. According to Neftegaz workers, Rosneft "did not provide assistance to the company in the sale of oil products in Russia's other regions." As a result, as Leonard Rafikov, president of the Neftegaz Joint-Stock Company, explained to the custom house, he was forced to sell oil in the Baltic States. Since Neftegaz workers did not understand customs legislation, they did not change the regime from a "temporary export for refining" to "export."

On 28 October 1994 the Administration for the Fight Against Smuggling fined the Neftegaz Joint-Stock Company 4,234 billion rubles for an illegal export, as well as exacted the prescribed customs duty.

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Rosneft Case

According to the data of the custom house, not only joint-stock companies, but also state enterprises, actively violate the procedure for the licensing of oil export and customs rules. Since April 1994 the State Customs Committee has been investigating the case of an illegal export of oil by one of the largest exporters in Russia—the Rosneft State Enterprise.

According to the data of the State Customs Committee, during 1993-1994 Rosneft exported duty-free more than 85,932 million tonnes of oil for the total amount of 14,712 billion rubles to countries of the near abroad (mainly to the Mazheykyay Oil Refining Plant in Lithuania) for refining. However, oil products never came back to Russia. At the same time, in confirmation of the reimport of "products of crude oil refining" Rosneft submitted about 52 false freight customs declarations to the Energeticheskaya Custom House. The Energeticheskaya Custom House has at its disposal materials for the initiation of three more proceedings against the Rosneft State Enterprise according to Part 2, Article 271, of Russia's Civil Code for an illegal transfer through the customs border of 15,000 tonnes of oil on the basis of 10 false freight customs declarations.

The investigation of these Rosneft cases has not yet been completed. Therefore, the enterprise management did not make comments on this to KOMMERSANT-DAILY.

Oil of Chechen Origin

On 11 November 1994 during an attempt at illegal transport through the Russian-Belorussian border the Bryansk Custom House detained 13 tanks with diesel fuel. The diesel fuel was sent from Chechnya by a certain Groznyy cooperative, Effekt, to the address of a certain Kaliningrad foreign private enterprise, Rostorn. Customs officials detained the freight, because, obviously more fuel was transported than was indicated in accompanying documents. In the course of the investigation it was clarified that another 49 railroad cars with diesel fuel were sent by Effekt to the address of the Kaliningrad foreign private enterprise, but never arrived in Kaliningrad. By order of Russian customs officials these tanks soon were found and detained in Lithuania by local customs services.

During the investigation customs officials calculated that Effect tried to export out of Russia a total of 757 tonnes of oil products allegedly bought at the Groznyy Oil Refining Plant. However, absolutely all accompanying documents turned out to be false, including the contract of the Effekt Cooperative with the foreign private enterprise. It turned out that Effekt did not exist at all and fuel was not bought at the Groznyy Oil Refining Combine. At the same time, Umar Akhmedov, a worker at the Effekt Cooperative, who accompanied the freight, disappeared and did not give testimony to the custom house.

As a result, customs officials simply confiscated the diesel fuel.

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National Affairs

Presidium Vote Result Analyzed

954K0569A Kiev MOLOD UKRAYINY in Ukrainian 11 Apr 95 p 1

[Article by Olena Hubina: "To Take Into Consideration and To Generalize"]

[FBIS Translated Text] The report of the Presidium of the Supreme Council was awaited for close to a month and a half. This gave occasion to journalists, and the deputies themselves, to make literally the most fantastic predictions: that the entire membership of the Presidium would be replaced, that someone from the highest leadership would be dismissed, that is, the chairman or one of his deputies. Some believed that Oleksandr Moroz himself might actually be replaced. He was elected at a time when this parliament was working with a significant number of deputies yet unelected. As a result, 175 votes "for" had been sufficient to bring him victory. In terms of the current composition of parliament, this constituted an obvious minority. It is this that gave rise to the proposals that the legitimacy of the chairman of the Supreme Council had to be confirmed by the deputies.

Many other predictions related to the dismissal of Moroz's deputies. Especially as the agenda of the session listed a report by the Temporary eputies' Commission To Review Ukraine's Use of U.S. Credits, which could have affected the authority of high officials. But this material was not considered prior to the Presidium's report, and Ceasar's wife remained above suspicion.

The Presidium's written report on its work appeared approximately a month and a half ago. It was this report that Anton Buteyko, leader of the "Center" group, described as "a report given by a Pioneer leader about what had been done." It listed so many accomplishments that it was somewhat alarming: if not for the productive work of the Presidium, life in our country would have taken the wrong course!

The report noted that "the organizational measures carried out by the Presidium created conditions for conducting plenary meetings, at which 473 issues were considered, 92 laws and 247 decrees were passed." At the same time, speaking in parliament last Friday, Oleksandr Moroz stressed that the presidential structures had not submitted the draft laws needed to support the policy of reforms that had been announced in President Kuchma's October speech. Moroz focused on the social and economic situation in which the present Supreme Council, which was elected a year ago, began its work. The situation had obviously not been to its advantage, but "the makeup of the present Supreme Council is strong," he said, "no weaker than that of the preceding Council." Therefore, the solution to the crisis, which society is experiencing today, "must begin in this hall."

Today's Presidium, in the opinion of Oleksandr Oleksandrovych [Moroz], is at a transitional stage on the road. Its functions can be quite different once parliament is elected on party principles. But the current situation is such that deliberations on many issues in parliament take an inordinate amount of time. Moroz therefore proposed considering changes in the powers and functions of the current Presidium. Changes that would allow it to play a greater role in approving normative acts and interpreting laws.

But many deputies take a completely different approach to solving such problems. Speaking on behalf of the Rukh faction, Vyacheslav Chornovil called on the deputies to bring the functions of the chairman of parliament into conformity with the constitution. He believes that in light of the election of a president, the functions of the Presidium are of a more limited nature, and therefore the office of the chairman should be viewed similarly to that of speaker.

Some give a simple explanation for this "maximalism" on the part of the leader of Rukh: as things stand today, he cannot count on a chair in the leadership of the Presidium, contrary to the predictions that were expressed until recently that the Rukh [leader] would become a deputy chairman. Generally speaking, the impression was that everyone in the hall understood perfectly well that inasmuch as there would be no cardinal changes, why bother taking any action at all?

When Anton Buteyko, the leader of the "Center" group, rose to the podium and proposed voting on the legitimacy of the present chairman of parliament, there was some doubt among the journalists whether there would be enough supporting votes in the hall. During a break in the proceedings, the deputies were explaining in the corridors that everything would depend on what they would be asked to vote on. It might be in support of [the chairman's] legitimacy, or it might be a no confidence vote. A no confidence motion would also fall short of the necessary number of votes.

But all doubts were resolved with even less passion: there was no vote either on [the chairman's] legitimacy or on confidence. Instead, a majority consisting of 234 votes voted to take the report of the Presidium into consideration. And to generalize the proposals and observations that had been made.

But then standing up for one's position is not the same as tearing up the Russian flag!

*Kuchma Repeals Various Crimean Decrees

954F2119A Simferopol KRYMSKAYA GAZETA in Russian 19 Apr 95 p 1

["Edict of the President of Ukraine: On the Repeal of Certain Decrees of the Government of the Autonomous Republic of Crimea"]

[FBIS Translated Text] A number of decrees have been adopted by the Government of the Autonomous Republic of Crimea which are not in conformance with Ukrainian legislation.

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Decrees Nos. 245 and 306 of the Government of the Autonomous Republic of Crimea, dated 5 December and 29 December 1994, respectively, have established rates of excise tax on alcoholic beverages and imported goods delivered by entities of economic activity of the Autonomous Republic of Crimea—this contrary to Decree of the Ukrainian Cabinet of Ministers No. 18, dated 26 December 1992, "On Excise Taxes." These decrees also contradict Article 14 of the Ukrainian Law on the System of Taxation, according to which excise taxes are categorized as statewide taxes to be imposed throughout Ukrainian territory.

Decree No. 259 of the Government of the Autonomous Republic of Crimea, dated 15 December 1994, terminated the application of economic sanctions related to water, gas, heat, and energy consumption between industrial and agricultural enterprises of all forms of ownership and the power supply enterprises—which act exceeds the authority of this government. Matters dealing with the establishment, repeal, or termination of application of economic sanctions with respect to entrepreneurial entities fall within the jurisdiction of the organs of legislative and executive authority of Ukraine.

Decree No. 279, which prohibits the shipment of bread products, cattle, pigs, fish products, livestock products, sunflower seeds, soy, vegetable oil, and vegetables grown in open and covered soils to areas outside the Autonomous Republic of Crimea, was adopted in violation of Article 4 of the Ukrainian Law on Property, dated 15 December 1994. This decree violates the right of the property owner to possess, use, and dispose of property belonging to him as he sees fit, and to carry out any activity with regard to this property that does not contradict the law.

Government Decree No. 288, dated 29 December 1994, establishes the rates of land tax for 1995. This exceeds the government's authority. According to Articles 5 and 6 of the Ukrainian Law on Land Payments, the average rates of land tax are determined by the Supreme Council of Ukraine, while the tax rates by soil grouping based on these average rates are established by the Supreme Council of the Autonomous Republic of Crimea.

Proceeding from the information here presented and in accordance with Point 7-2 of Article 114-5 of the Ukrainian Constitution, I decree:

To repeal the following decrees of the Government of the Autonomous Republic of Crimea, as being in violation of Ukrainian legislation:

Decree No. 245, dated 5 December 1994, "On Excise Tax Rates";

Decree No. 259, dated 15 December 1994, "On the Economic Sanctions Related to Water, Gas, Heat, and Energy Consumption";

Decree No. 279, dated 15 December 1994, "On Prohibiting the Export of Bread Products, Cattle, Pigs, Fish Products, Livestock Products, Sunflower Seeds, Soy, Vegetable Oil, and Vegetables Grown in Open and Covered Soils";

Decree No. 288, dated 29 December 1994, "On the Indexation of Payments for Land Use in Crimea and Procedure for Effecting These Payments in 1995";

Decree No. 306, dated 29 December 1994, "On Excise Tax Rates."

[Signed] President of Ukraine L. KUCHMA
City of Kiev

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Armenia

*Moscow-Yerevan-Tehran-Ashgabat Axis Envisioned

954F2147A Yerevan RESPUBLIKA ARMENIYA in Russian 20 Apr 95 p 1

[Article by Karen Topchyan: "The Geopolitical Arrangement in the Region Is Changing: The Emergence of a 'Moscow-Yerevan-Tehran-Ashgabat' Axis Appears Highly Likely"]

[FBIS Translated Text] Very important events, which could markedly alter the geopolitical arrangement in the Caucasus-Anterior Asian region, have been occurring in the past several weeks. At the center of these events is a most influential country: the Islamic Republic of Iran. This state is, obviously, taking specific and active steps in the direction of a strengthening of its role in the region.

The first meeting of ministers of foreign affairs of Iran, Armenia, and Turkmenistan—'Ali Akbar Velayati, Vaan Papazyan, and Boris Shikhmuradov—was held in the first 10 days of April in Tehran. At the center of attention were, as we all know, questions pertaining to the expansion and specification of the neighboring countries' economic cooperation. A memorandum, which specifically contemplates the three states' intentions to interact closely in the political, economic, and scientific and technological spheres, was signed on the results of the meeting. The main accords were reached on their territories being made available for the passage of transport and freight, not only of these three countries but of other states also, what is more. The parties decided in this connection to create a tripartite transport joint venture. The leaders of the foreign policy departments also discussed the possibility of the shipment of Turkmen gas across the territory of Iran to Armenia. Not only gas but other energy sources also, incidentally. But, according to Mr. Zuloyan, deputy minister of foreign affairs of Armenia, on account of purely technical and political difficulties this matter has still to be discussed comprehensively.

Many observers both in Armenia and outside essentially ignored the fact of the tripartite meeting in Tehran, evidently considering this to be quite a routine event in a series of "goodwill visits." But, in my view, upon a more attentive and closer consideration of the results of the Tehran rendezvous it may be ascertained that the contours of a new Ashgabat-Tehran-Yerevan "axis," to which Russia is clearly well disposed, are already emerging. It is obvious, after all, that it is more to Moscow's advantage that the economic problems of its important Transcaucasus strategic ally be resolved not only at the expense of Russia itself. I shall cite the example of Turkmen gas. Were it to be shipped via Iran to Armenia, our country would be dealing merely with a predictable and friendly Iran which has equable relations with Moscow here. At the same time, on the other hand, many problems are arising today on account of objective and subjective factors in the shipment of Turkmen "blue fuel" along the route crossing Uzbekistan, Kazakhstan, Russia, and Georgia. With the present "option" Russia is having to assume the role of intermediary at "best," at "worst," to itself seek an opportunity to transfer this type of fuel or the other to Armenia.

There is no doubt that such prospects would be unrealistic without the marked improvement in Armenian-Iranian relations. Although at first sight, considering a number of circumstances, the rapprochement between Yerevan and Tehran appears to be not entirely natural. First, the sharply negative attitude of the United States and other Western countries toward Iran. In their opinion, the present Tehran authorities are exporting terrorism and Islamic fundamentalism. Armenia, which adheres to a balanced foreign policy, cannot fail to take account of the factor of the United States in relations with its southern neighbor. In the context of the Karabakh conflict Tehran has in the past repeatedly ((word(s) missing)) that it considers Armenia the aggressor in occupation of part of the territory of neighboring Azerbaijan. No other official statements in this connection have been made thus far. Although it is common knowledge that the war is being fought between the Nagorno-Karabakh Republic and Azerbaijan.

Nonetheless, in this by no means unambiguous situation Armenia and Iran are partners—both in politics and, to an even greater extent, in economics. Tehran is in second place behind Russia among Armenia's trading partners. These are last year's figures. According to the results of the first months of the present year, it is entirely probable that Iran has already moved into first place. Iran is the sole contiguous state which has opened wide its borders for trade with its neighbor, which has found itself under a severe economic and transport blockade. Quite intensive trade is under way between the border regions of the two states. Iran's 200,000-strong Armenian community enjoys all rights as a religious minority.

Such cordial mutual relations between Christian Armenia and Muslim Iran are explained by economic factors. Armenia is for Iran a kind of transit state into Russia, and from there, onward into Europe. In addition, Armenia is the best sales market for the none-too-high-quality but, what is most important, inexpensive Iranian commodities. As far as Yerevan's interest in Tehran is concerned, it has been possible thanks to the latter to break through the long blockade on the part of Azerbaijan and Turkey. Armenia understands in this case that it has no interests other than how to improve relations with its neighbors, if only with those that are favorably disposed toward it.

Iran's relations with Azerbaijan, meanwhile, are showing a clear trend toward deterioration. It is well known that the main reason for this was Baku's recent refusal to transfer to Iran 5 percent of its share in the consortium for the development of the oil fields on the Azerbaijani

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shelf of the Caspian. Yet Tehran had in exchange offered to cover Azerbaijan's share of the investments in the "contract of the century" and had undertaken to build in Nakhichevan an oil refinery and a gas pipeline. Baku officials agreed to so drastic a step under obvious pressure from Washington, which warned of a suspension of American oil companies' membership of the consortium in the event of Tehran's involvement in the multi-billion-dollar contract. Iran was also undoubtedly irked by the news concerning the creation in so-called South Azerbaijan of the National Independence Front. The FNN ((National Independence Front)) has declared that it will conduct a "national liberation struggle against the colonizers," meaning the Iranian authorities.

It is in such a situation, when Iranian-Azerbaijani relations are today manifestly tending to deteriorate, that Baku and Ankara (Tehran's age-old rival in the region—K.T.) are keeping a very jealous eye, as recent facts show, on the economic rapprochement of Iran and Armenia. It even appears to some Turkish and Azerbaijani political scientists that this will be followed by closer political relations also. Considering that Yerevan is Russia's military-strategic ally in the Transcaucasus and that relations between Moscow and Tehran have undergone an additional noticeable thaw as of late, such a development of events cannot be ruled out. But, as representatives of both Yerevan officialdom and Tehran officialdom maintain, this rapprochement will not occur at the expense of third countries.

*Government Issues Refugee Statistics

954F2146B Yerevan RESPUBLIKA ARMENIYA in Russian 21 Apr 95 p 1

[Article by Marianna Iskandaryan: "Everyone Wants... To Be Home"]

[FBIS Translated Text] According to the figures of the State Administration on Refugee Questions, as of today 240,000 refugees from Azerbaijan are registered in Armenia. There are 6,000 from Abkhazia. And 2,800 of them have returned to their places of permanent residence. There are 112 families who have come to the Republic of Armenia from Central Asia, of whom 32 have acquired the status of refugees and the rest have returned to their homes. After the flow of refugees from Chechnya, only 25 of the families were left in Armenia and the rest returned.

By a decision of the Armenian Government and in coordination with the UN High Commissioner's Office, refugees from Abkhazia, Chechnya, and Tajikistan are regarded as humanitarian refugees. They are granted humanitarian aid in their places of residence. The government is doing everything possible, to the point of providing tickets for them to return home.

Some 52,000 refugees came from Nagorno-Karabakh to Armenia and 43,000 of them have returned home. Those who are still here are being provided with a free return trip to Karabakh and free repair of their homes. Last year 1,500 homes were repaired through the State Administration.

People are also leaving Armenia, mainly for Russia. The precise number of those who are leaving has not been registered. But there are those who wish to return to Armenia. We are now receiving from the Armenian communities in Russia telephone calls, letters, and applications for help for people to return to Armenia. An experiment was conducted in returning Armenians from Russia. From Stavropol Kray the Armenian community gave out 100 airline tickets and 100 families were returned on buses.

After the signing of the intergovernmental agreement between Russia and Armenia on the registration of migration processes and the return of Armenian refugees, we also intend to conclude an agreement with the Federal Migration Service of Russia, which has migration services in Stavropol and Krasnodar Krays, in order to help people return to their homeland.

*Chairman Details Central Bank Activities

954F2146A Yerevan RESPUBLIKA ARMENIYA in Russian 21 Apr 95 p 1

[Article by Mariam Ogandzhanyan: "Healthy and Powerful National Capital"]

[FBIS Translated Text] The regular news conference of the chairman of the Central Bank of the Republic of Armenia, Bagrat Asatryan, held yesterday was devoted to the recent activity of the Central Bank. The first thing Mr. Asatryan noted were the positive strides achieved by the Central Bank since the last meeting with journalists. Discussing the relations between the Central Bank and the legislative structures of the republic, Mr. Asatryan reported that the Supreme Council of the Republic of Armenia had approved the program for stabilization of the exchange rate of the national currency and the Charter of the Central Bank of the Republic of Armenia. Central Bank leaders attach special importance to the latter document since it regulates the role, position, and authority of the Central Bank and its relations with other structures. The legislative activity on the part of Central Bank leaders is continuing as well—during the past period 80 issues have been raised for consideration and decisions were adopted on 19 of them. The Central Bank chairman discussed one of the draft laws pertaining to regulating the activity of commercial banks. "This is one of the first attempts to see the future of the banking system of Armenia," Mr. Asatryan noted. He also mentioned that beginning in the year 2000 the authorized capital of the commercial banks will amount to $1 million. In this connection he noted that one of the achievements of the Central Bank is the creation of a reliable system of oversight of the activity of commercial banks.

"The year 1995 will be decisive from the standpoint of the establishment and stabilization of the republic financial structure," the Central Bank leader noted at the news

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conference. Noting the successes achieved in production during the past quarter, he linked them to the strict financial-credit policy pursued by the Central Bank. It was because of this, in his words, that we see a 15 percent increase in the output of industrial products and a decline of the inflation level. Mr. Asatryan defined the recently observed price fluctuations as seasonal, noting in passing that the higher grain prices were not reflected in the domestic condition of the market.

As for rehabilitation credit, the first part of which was $19.1 million, and the second part—13 million—was received quite recently, these amounts, in Mr. Asatryan's words, are intended exclusively for covering the budget deficit. The mechanism for making payments is such that the Central Bank receives the amounts in dollars and then gives them to the government in drams to be directed into specific ares of production and the social sphere. In this connection it was emphasized that cooperation with the World Bank imposes certain restrictions and obligations on the country's financial structures and financial policy—in particular, one of the requirements of the World Bank is maximum reduction of budget payments. At the same time, speaking about the results of a Eurobank conference held during 9-12 April in London in which Armenia participated, the chairman of the Central Bank noted the interest on the part of foreign investors in Armenia. "Armenia is open to foreign investment," he stated, adding that the law adopted by the Supreme Council of the Republic of Armenia, "On Protection of Foreign Investments," creates a broad field for financial activity in the republic.

Additional evidence of the invigoration of financial life in Armenia was the recent opening of a branch of the currency exchange in Gyumri. The first tenders were held at the exchange on 26 April. Another achievement was ridding the republic financial market of the dominance of the Russian ruble.

Answering journalists' questions, Bagrat Asatryan reported that the leaders of the Central Bank were impatiently awaiting the adoption of a law on bankruptcy, which could contribute to no small degree to the further regulation of the activity of the country's financial structures. At the same time he stated in all seriousness that the protection of investors of commercial banks and all kinds of organizations is not the function of the Central Bank. As for the time periods for credit for commercial banks from the Central Bank, in Mr. Asatryan's words, the most acceptable time period for repayment of credit was deemed to be 26 days.

Regarding the question of the right of exchange points to trade in privatization certificates, Mr. Asatryan refused to give a clarification, noting only that the fight against such phenomena is the prerogative of law enforcement structures.

And, finally, will the savings of the population kept in the Sberbank be returned in the dollar equivalent? The chairman of the Central Bank gave a simple answer to this question: The amount necessary for settlements with the investors is $800 million. With a 200 million budget, this is hardly possible, so the authorities can only apologize to their citizens. Incidentally, according to information in the hands of our RESPUBLIKA ARMENIYA correspondent, the Presidium of the Supreme Council of the Republic of Armenia has already adopted a decision to reimburse the population for its deposits with a coefficient of 0.15. And this is only the beginning...

Azerbaijan

*Effect of Demographics on Economic Reform Examined

954F2126A Baku ZERKALO in Russian 15 Apr 95 p 7

[Interview with Kamaldin Mamedov, member of the All-European Demographic Society and leading research associate of the Center for Economic Reforms, by U. Chertovskikh; place and date not given: "Demographic Processes May Have a Negative Effect on the Course of Reforms"]

[FBIS Translated Text]

[Chertovskikh] Does the present demographic situation in the country evoke any fears?

[Mamedov] Not right now. But let me cite certain figures. In 1960, Azerbaijan was in first place among the former USSR republics with respect to birth rate. The birth rate coefficient was 40.8 per 1,000 individuals. Then the birth rate started to gradually diminish. In 1993 the birth rate coefficient was 24.2 per 1,000 individuals. This brought about a transition in our republic from large families to mid-size (three children) families. The process of diminishing birth rate will continue to the year 2002. I believe we must hold the line at the level we have attained. Further diminution of the birth rate is undesirable—reduction in numbers of the native populace is fraught with serious consequences and could lead to the extinction of a nation. We are not threatened with this prospect right now, of course, but in order to prevent it from happening we must execute a proper demographic policy.

[Chertovskikh] How was demographic policy conducted in the former Soviet Union?

[Mamedov] It completely disregarded particular features of the development of regions. It was a standardized policy that negatively influenced the demographic situation of the country. Consider migration policy, for example. When industrial centers were established, personnel were brought in from other republics with a total disregard for the manpower potential of the republic itself. This led to shortages in job positions and a surplus able-bodied populace whose numbers increased through natural growth. This was the situation we had when Sumgait, Ali-Bayramly, and Gyandzha were built. As a result, Azerbaijan became one of those republics in

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which labor resources far exceeded job positions, resulting in an exodus of the able-bodied population. People were forced to leave in order to earn a living.

This situation is with us today. Additionally, such processes may become still more complicated as we effect transition to the market, unless we undertake necessary measures immediately.

[Chertovskikh] What kind of demographic policy should Azerbaijan pursue in your view?

[Mamedov] The formation of demographic policy is a very complicated question. Demographic policy does not only mean stimulating the birth rate. It also involves the employment problem, provision of housing, health protection, the ecology, and other issues. For example, migration processes should be regulated through the use of economic levers.

The establishment of a qualification parameter with respect to number of children in the family should be a primary step in the pursuit of a proper demographic policy. The optimal number of children to whom state benefits should be disbursed is three.

[Chertovskikh] What if there are more children in the family?

[Mamedov] People who decide to have four or more children should know that they themselves will have to provide for them. State resources are not infinite, and currently operating elements of demographic policy are becoming a burden to the outlays portion of the budget. Benefits have been established for children up to age 18 in the amount of 30 percent of wages, and preliminary calculations show that the pay being received by peasants today is significantly lower than the benefits being disbursed for children... Of course, the degree to which agricultural workers are motivated to work is reduced under such conditions.

I would like to note that measures adopted in the sphere of demographic development will remain ineffective until we pay attention to the social and economic problems people have. It is clear that with unemployment in the republic, with a large migration of the populace to areas outside the country because of difficult economic conditions, with housing shortages, and with a deteriorating ecology, all these factors will exert their influence on our demographic processes, and in particular—will lower the birth rate. But on the other hand, demographic factors can become a serious obstacle on the path to the market. We are short job positions—and the number of "mouths to feed" per worker in the republic increases from three to four. There is inadequate housing—and we see family problems on the rise; the number of divorces increases. The minimum wage is lagging behind the minimum consumer budget—and the standard of living of the populace deteriorates, an individual cannot feed his family on the amount the state provides, again we see an increase in divorces... All this can lead to an explosion of discontent within the population and create a tense social environment. In the final analysis, these demographic factors can impede the normal course of reforms.

*Models for Republic's Armed Forces Viewed

954F2125A Baku ZERKALO in Russian 15 Apr 95 p 3

[Interview with Deputy Minister of Defense of Azerbaijan for Indoctrination and Chief of the Directorate for Personnel Work Colonel Talekh Aliyev by Nurani under the rubric "Facts, Commentary": "The Armed Forces: What Should They Be?"]

[FBIS Translated Text] *Questions of military organizational development have paramount importance for any nation, and the former union republics are no exception in this regard. A wholly definite "specific local nature" is also discernible in this age-old rule for Azerbaijan: even if one takes into account that the war with Armenia over Nagorno-Karabakh is close to an end, no one can vouch for the fact that this military conflict will be the last one in the history of independent Azerbaijan.*

Any army, as is well known, is first and foremost soldiers and officers, and then the hardware, weaponry etc. That is precisely why we addressed these questions to Deputy Minister of Defense of Azerbaijan for Indoctrination and Chief of the Directorate for Personnel Work Colonel Talekh Aliyev.

[Nurani] Several methods of manpower acquisition exist for the Armed Forces. The army of the USSR was composed of draftees, while in the United States it is professional, with a draft only in the event of active military operations. What kind of army will Azerbaijan have in the future, after the war with Armenia is over?

[Aliyev] It has been codified, on the basis of the corresponding laws, that manpower acquisition for the Armed Forces of the Republic of Azerbaijan will be of a mixed type. The Armed Forces are a regular cadre army today in which are serving, along with conscript servicemen, partially mobilized officers and gizirs (warrant officers) mobilized in connection with the war—professionals of the military arts. As for a professional army in the sense that it is being discussed by journalists today, despite widespread opinion it is not an indispensable attribute of developed countries—the armies of many of them are manned using draftees and cadre professionals. There is no "purely professional" army in that sense anywhere.

[Nurani] Enlisted personnel are clear enough. It is understood that the Baku Higher Combined-Arms Command School will be the foundation for the training of cadre officers. Specialists in many fields, however, will have to be trained abroad. Toward the educational institutions of what countries is the National Army oriented today?

[Aliyev] The cadre officer composition of our army today is, one way or another, representative of the Soviet military school. And it is very difficult to switch to something else. There is a desire to train our future

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officers in Russia, Kyrgyzia, Uzbekistan, and in Ukraine. We would of course like to orient our army to a Western model, the more so as the recent local wars have shown that the Western military school has largely outstripped the former Soviet school today. But the necessity of switching schools could arise in the future, first of all, time till tell when we will overcome our common misfortune, and second, the change of a school is a change in tactics, weaponry, and much more. It is a military-political decision, and such a decision can be made only by the military-political leadership; it would not be proper for me to discuss that subject.

[Nurani] What do you, as a professional military person, see as the causes of the lag in the Soviet school?

[Aliyev] An army, as is well known, is part of society. A considerable lag in development behind the West has been discernible in the USSR in all areas in recent years, and strictly speaking that was the reason for the "Gorbachev restructuring." An overall lag, of course, cannot fail to affect the army as well, in technical sophistication, in the training of personnel etc. The lag was moreover noticeable in all areas, even in places where the Soviet school was still preserved, the leadership; alarming symptoms have now been manifested.

[Nurani] While we have clarified the reasons for the lag in the Soviet military school behind the Western competitors, everybody explains the recent setbacks of the Azerbaijani army in their own way. And while no one disputes the internal instability of Azerbaijan as a reason for the military failures, there is still no uniform opinion with regard to the time lag in the military organizational development of Azerbaijan behind the analogous processes in Armenia, but the time factor is not cited as one of the primary ones...

[Aliyev] I would single out two reasons for the military setbacks before the fall of 1993: they are, first of all, the national disarray, the rivalry of various strains and groupings in the struggle for power, as a result of which the work to create the army in the fullest sense of the word was simply not carried out at all; and, second, the time factor itself. This is unfortunately not a propaganda excuse. During the years when Azerbaijan was still not doing any work whatsoever to create its own armed forces, Armenia had by all rights created regular, battleworthy troops. They entered into sweeping confrontation with the Azerbaijani army starting in the spring of 1993, and our units were at that time essentially regional self-defense battalions or military units tightly tied to political groups, easily susceptible to internal political events. These internal political confrontations and instability clearly provided no opportunity to create a genuine army. A regular army, meanwhile, was all that could restrain the onslaught of regular troops, not regional self-defense battalions, even if they were called national armed forces and they had many patriotic volunteers and brave and determined warriors fighting in their ranks.

I myself was at the front lines in the summer of 1993 observing offensive operations by the Armenian troops, and I should say that clear-cut organization, the presence of small tactical assault subunits, and operational-maneuver groups operating in classical variations were all discernible in each battle. One cannot create such an army in a day, or even a year. Systematic work on the creation of our own army in Azerbaijan began only in November 1993, when after somewhat of a stabilization of the domestic political situation serious clarifications were made in the legal foundations and principles for the organizational development of the armed forces, and political, organizational and indoctrinational steps were taken to form a battleworthy army. We were not forced to wait long for results, by the way—the battles in December of 1993 and January, February and especially April 1994 showed that the Azerbaijani army had been altered somewhat over that brief period. A turnaround ensued—the attacking Armenian army was essentially forced to forego the development of the offensive at that time.

Many are now saying, especially after the Chechen war, that our soldiers do not known how to fight and are weak in spirit. I reject such judgments! Our army demonstrated the highest morale, combat and psychological qualities at the end of 1993 and beginning of 1994, and especially in April, despite the brief training. Our fighters can fight and are fighting no worse than the Armenians or the Chechens. It is a matter of internal stability and in working to create an army, and in no way some illusory "inability to fight" of the Azerbaijani soldiers. They showed what they are capable of, I repeat, during their large-scale operation in the [Terter] sector, which was distinguished from other operations by the density of fire and intensity of the fighting, where Armenia concentrated the best of its units but failed in its plans.

* * *

Judgments regarding which [illegible text] school and military-political conceptual model better meet Azerbaijani interests undoubtedly sound somewhat untimely. There is also no doubt that one should be oriented toward what is best, and not what is easiest, in military organizational development.

We will leave to the specialists an analysis of the strictly professional, military-technical and military-economic aspects of a possible re-orientation of the military organizational development of Azerbaijan from the "Russian" to a "Western" or "NATO" variation. There are also many purely political realities in this issue as well, however.

A military-theoretical orientation assumes, first of all, some sort of military-political dependence on the countries supplying the weaponry. The operation of any weaponry and combat hardware presupposes a need for spare parts, ammunition, instructors, etc. And a supplier

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country would only need to "cut off" military deliveries to Azerbaijan for our army to end up in an exceedingly difficult situation.

In today's situation, when the most reliable ally of Azerbaijan—Turkey—is part of NATO, and Pakistan, though not a member of that organization, is nonetheless oriented toward an alliance with the United States, while Russia is becoming more and more inclined to support Armenia (the representatives of the official authorities of Azerbaijan are saying this as well), there are far greater grounds to expect such a "surprise" from Moscow than from the West.

A second aspect pertains more to domestic policy. An orientation toward this or that path of military organizational development assumes, of course, a certain degree of repetition not only of hardware, armaments and tactical methods, but also interconnections between the army and civilian institutions. While the army in Western democracies is one of the institutions of the state, and strict civilian political control has been established over it, in the socialist countries the entire state is an auxiliary service to some uncontrolled and unsubordinated army—some "sacred cow." But it is not milked, it milks all the rest. As a result the armies of the Western countries, under strict controls on the part of the civilian society and possessing good fighting ability, did not have an opportunity to fan military spending to astronomical dimensions, while in the former socialist countries the "inviolability" of the army, not possessing sufficient fighting ability, nonetheless siphoned off to itself the lion's share of the budget. And to judge by the Chechen war, the uncontrolled nature of the army, military spending and the open dictate of the power structures remains in Russia to this day.

We cannot fail to take all of these realities into account in the selection of our own military strategy.

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Latvia

Interior Minister Refutes Allegations of Wrongdoing

954K0548A Riga LAUKU AVIZE in Latvian 10 Mar 95 p 5

[Interview with Janis Adamsons, Minister of Internal Affairs, by V. Krustins, recorded by J. Motivans: "J. Adamsons: Trust those who are with Maris Galis!"]

[FBIS Translated Text] As last week's public events fabric was being woven, the name of the Minister of Internal Affairs, Maris Gailis, was once again included. It was supposedly about some deals related to the Naval forces. At the same time, the "Lauku Avize" postbox was rapidly filling with letters defending Adamsons.

Participating from our editorial board in the scheduled conversation with the Minister of Internal Affairs, were "LA" Chief Editor V. Krustins, Organizing Director V. Serdans, Deputy Chief Editor M. Igaune, and Secretary in Charge, J. Motivans. Also joining in the final part of the interview was the Republic of Latvia Naval Forces Commander, Gaidis Zeibots. Questions were posed by V. Krustins.

[Krustins] In connection with the commotion being raised, what exactly did J. Adamsons do in the Republic of Latvia Naval Forces Fleet?

[Adamsons] Those who call me a sailor are speaking the truth. That is what I am from my heels to the ends of my hair. Discharged from duty from the Far East fleet on June 15, 1992, I arrived in Latvia and one day later travelled to Liepaja to meet our fleet. I travelled up and down the coast for a few weeks, meeting all the coastal stock corporation leaders. My conclusion was: Latvia is being robbed. I informed Godmanis about this. At that time, just due to fish smuggling, the nation was losing about 100 thousand dollars every day. That is no longer happening today, thanks also to the Naval Forces. Taking office, I had to accomplish, as quickly and as beneficially for us as possible, the withdrawal of Russian fleet.

We concluded an agreement and the Russian side even agreed to give us a schedule for withdrawal. No other Military Forces group had anything like that. The Russians also fulfilled these obligations. We created a few precedents that are not expected, even in international seamanship norms. For example, we accomplished that the Russians are not allowed to carry out maneuvers in our economic zone. All of their military ships were subject to our customs and border controls, even though any military ship in the world carries with it its nation's territorial immunity, and no one without the permission of the respective nation's government is permitted to board a foreign ship. But we were boarding and controlling! Three fishermen's boats with 12 mm machine guns on deck stood in the way of one hundred and fifty times larger Russian liners, whose armaments even included 120 mm cannons. That was a mind game.

[Krustins] But what did it accomplish?

[Adamsons] I think that since then, Russia began to respect us as a nation. Besides, we detained a great deal of contraband, illegally going in and going out, including a large amount of Russian soldiers. We caught some fugitives fleeing by sea. Together with the Air Force, we even fined a large fishing vessel belonging to a major country friendly to Latvia, which was fishing in Latvia's fishing zone. Conducting reasonable discussions, and, at times, even quite sociably talking and treating the major nation's officers to their country's most famous beverage, we took over undestroyed bases, gained facilities. If our Minister of Defense at that time had not interfered, then, with the help of SWH funds, we could have gotten the whole radar station. At that time, there were already many commercial firms that were attempting to get the port's shipping business, if just by buying a small parcel. Unfortunately, that is what happened in Liepaja. There was particular interest in the Bolderaja Naval Port, where Russia had stationed over ten thousand military men, training bases, submarines, etc. Together with what the Security Police has learned, 27 firms had already moved in on the port at that time, and, in fact, were involved in illegal trade with smuggled goods. The main one—nonferrous metal. We had to get inside.

[Krustins] You have about 15 thousand tons of nonferrous metal, which was confiscated at Boderaja's docks?

[Adamsons] We do. And also the experience with firms which wanted to illegally sell it, wanted to gain a legal foothold in the port, and which, at this moment, have not forgotten me.

[Krustins] Were politically strategic interests the only reason which prompted you to conclude agreements and organize a competition for private firms?

[Adamsons] Naturally, no. There were about ten of us Latvian army people there without any funding. In order to get the port in order, we needed about 20 million dollars, and we were looking for a source for this money, considering our mutual interests. To make it into a great modern port, we should put in about 100 million dollars, and I am convinced that, one way or another, Latvia will get such a port.

Becoming aware of the growing authority of the Latvian Naval Forces, our own nation's firms started to approach us about signing agreements for operating in the port. For example, "Lido", SWH, "Lear", "Pardaugava", and still others were interested in the building of an oil terminal, but lost interest when they heard our refusal due to ecological considerations. (Why, I don't know, but it will apparently be allowed now.) A competition was held, in which LaCon really was the most qualified, and, at that time, I had no connections with Deputy Kaza. If I am to be blamed for something, then it should be that

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I signed the request at the time when the Russian military was still legally in charge of the port. Thus, I participated in an agreement to operate in a **nonexistent** property. In reality, it did not belong to us. Now, it can be scrutinized to see how many centimes more or less I asked per cubic meter of the port. But it should be noted that they were the ones, during the time of our everyday money crisis, who financed the repair of Latvian military ships at the Liepaja works. Through this agreement, we, in fact, got into the Bolderaja port and in a short period of time "shut down" 12 contraband firms. A few of the remaining firms "disappeared", and we could no longer find them anywhere.

[Krustins] But, as sailor to sailor, you probably had a better understanding of one another.

[Adamsons] Good grief! The Russian military, among other things, had a higher regard for Liepaja's port, which did not freeze over and was well protected on both sides, and Ventspils *Zvaigznite*, than for the Skrunda radar station. But, we were able to take over both of the former properties much more peacefully, and they were preserved in working order.

[Krustins] What was this *Zvaigznite* to Russia?

[Adamsons] It was a sh.... war spying center, which controlled the Arctic Ocean and Atlantic Ocean basins, "taking" information, which came from submarines. At the same time, it was a retranslation center for their military naval communications with Moscow.

[Krustins] It seems that you, sailors, got into some serious arguments with the Russian Military Withdrawal Control Office Chief, Mr. Upmalis.

[Adamsons] That did happen. He even complained to the Prime Minister, saying that we are provoking international conflicts. But then, he didn't realize that we had a civilized relationship, and that we could settle this or some other conflict over the telephone. We detained their warrant officer, who was stealing, and their commander was not insulted, but said that a thief deserves a thief's punishment. I am not surprised at Mr. Upmalis' involvement in bringing accusations against me today, because, in my time, I did not hide my thoughts about his dissatisfaction with the job, and even proposed that the Russian Military Withdrawal Control Office be closed. And even today, I am not surprised at anything: Upmalis is involved with the militarists, because "Lainbanka" is paying the militarists' pensions.

[Krustins] You and Mr. Zeibots are both famous as military naval matters specialists, each in his own area and his own USSR region, Zeibots—the Baltic, you—the Far East. You both had a good reputation. Will Latvia's present Naval Forces also have the same reputation?

[Adamsons] We don't need cruisers or air force carriers. Latvia needs small vessels to patrol the coast and protect economic interests, and also four to five mine trawlers, because the threat of mines in the Baltic has always existed, and will also persist. We have submitted estimates to the government and hope that it will help with the formation of such a simple fleet.

[Krustins] But the government does not have sailors, so will it understand...

[Adamsons] What ... they don't have any? General Prosecutor Skrastins is a sailor. Gailis and Birkavs love to sail. (Laughter) But there are some people in the national leadership, who have participated in the search and dissemination of my "self-compromising". I won't let out any last names, yet, but I know them very well, and I also know another reason why Adamsons is an undesirable. In 1993, I detained the yacht "Marika", which contained a cargo of valuable contraband. It was not returned to the owners, no matter how important these men were then, and still are. I will give out last names at a later time.

[Krustins] Do you think the readers will not mind that you have not given them the names of those people who took advantage of Latvia in its most difficult years...

[Adamsons] I am not doing this because, at present, the investigation has turned up some not too dusty matters, due to which the investigation was temporarily halted. I stress: temporarily halted, not ended.

[Krustins] So then, matters are being dragged up, which were stagnant for a while?

[Adamsons] Correct! It's logical

[Krustins] We are glad that you have gained some allies—brave people.

[Adamsons] I have always been called an initiator, although I am not really one. I tell me subordinates only one phrase: exceptions do not exist for me, everyone is equal to me before the law. That frees people's hands. They investigate and continue to investigate, regardless of the last names that are involved.

[Krustins] And you are the shield that protects the investigators from interference from the side?

[Adamsons] Yes. It would not be difficult for me to destroy the Citizenship and Immigration Department. Everyone would praise me: this man, you see, has gotten rid of the regulars! I could have turned over officers and investigators, who worked at "Lainbanka" at that time, for a "beating". I could have fortified myself.

[Krustins] That was even expected of you!

[Adamsons] Expected. But I have never been influenced by that type of pressure.

[Krustins] We should ask you here: doesn't the person who appointed you feel somewhat deceived? Probably even the honorable Gailis was being "pulled by his feathers" by his party members—what have you done?

[Adamsons] But Gailis and I are on the same team.

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[Krustins] But next to you sits the Minister of Finance, who, with the demise of "Lainbanka", immediately wanted to involve the government's assistance.

[Adamsons] Not true! He did not want to save it. If the Prime Minister had not supported the Ministry of Internal Affairs and the Minister, I would have been fired long ago. Within a 100 day period, they wanted to remove me from office twice. Doesn't that make the Guiness Book of Records?

[Krustins] Gailis understood what was needed. That's politics.

[Adamsons] Not only politics—such an action was his and my own strong conviction.

[Krustins] But not the conviction of the whole "Latvian Way".

[Adamsons] Time will put everything in its place. Even in the "Latvian Way". But what should I say about the Latvian National Independence Movement? Two weeks before the "Lainbanka" incident, I was at this faction. We were debating criminal matters. At that time, I clearly stated: in the near future, there will be a shake up in Latvia, high officials will be detained. They supported me; no one was upset. Afterwards, I was surprised that they suddenly asked for Adamsons' resignation.

[Krustins] You probably thought those arrests would be within the "Latvian Way"...

[Adamsons] Probably! (Laughter) But honestly saying, both Gailis and I would have resigned if it hadn't been for **public support**. Also, they cannot get rid of us because of the upcoming elections.

[Krustins] That really is the truth—the public supports you. I doubt that at this time, anyone would take the risk to remove the Minister of Internal Affairs. Primarily,—because of public support, and second—the information you have in your head.

[Adamsons] Well, even if they get rid of me, then the Prime Minister would continue what has been started. If I am chased away, he would have a chance to step back half a step and then regain the original position. That has been discussed. At present, the scenario is very simple: since no illegalities in the police activities could be shown, they are now looking for blemishes in my biography. We already know that quite high positioned *order givers from Latvia* even tried to have published in the Russian press that I am a KGB agent. That didn't happen.

[Krustins] Legally, the Saeima can remove you, but morally—they can't. We are make this assumption from the letters to the editor. Trust—that is the basic factor. For example, Z. Tomins is in a completely opposite situation, since he can save his position legally, but morally, he has lost out. Your bravery in connection with the banks and the unmasking of this dusty matter is strengthening the public's trust. In Latvia at present, that has enormous value, because people have lost trust in ANYONE. If the elections were held today, many would not vote, because they don't know—for who?!

[Adamsons] I will tell you—you can vote for the ballot that contains Maris Gailis! I guarantee the cleanliness of this ballot! I probably won't be on any ballot, but I will support Gailis' party.

[Krustins] We hope they don't get "rid" of you. But Gailis is from "Latvian Way" !

[Adamsons] All of the parties must heal and cleanse themselves, since none are ready for the elections today. The party members say that politics is a dirty business. I don't understand that. How can dirty politics come from clean people? Why are they making such compromises with their own conscience? That is totally incomprehensible to me!! If someone is consciously participating in that dirty game, then he is knowingly also smeared with dirt.

[Krustins] But why were the deputies so unified in their vote in the "Lainbanka" case to blame the Ministry? In your opinion, why?

[Adamsons] They were worried about the nation's financial situation. (Smirks)

[Krustins] We appreciate your humor, but that is not an answer. Then, at least 76 of the Saeima deputies had to own stock. Can "Lainbanka" drag down the whole financial situation in Latvia?

[Adamsons] I don't think so. The court will call everything by name.

[Krustins] "Lainbanka" cannot shake up all of Latvia, but it probably could disturb some party's finances.

[Adamsons] Possibly. But it is interesting that we were pressured, the Prosecutor General and I, to attempt to get involved with yet another bank, which in fact could have a significant impact on complicating the nation's financial situation. Then about seven more banks and the international accounting system would have declared bankruptcy. We became involved, but didn't pull anything apart. Those irregularities that were present, we managed to avert, regulate.

[Krustins] Well, if you were enticed into dangerous work, then, I think, it was probably to the "Baltija" bank. That is really where the simple folks' money is deposited, the savings of many people. And now the newspapers are reporting that Lavents was a criminal.

[Adamsons] Among the stockholders of "Lainbanka" is also the "Diena" stock corporation. The people can be fooled for one day or two. But there is a limit, after which it no longer works. Even our (LA) discussions in Vilanos confirmed this once again—people don't believe the deputies, who only walk around puffed up like turkeys, and act exactly the opposite from what they say.

Photo: Minister of Internal Affairs Janis Adamsons at the "Lauku Avize" editorial offices. Today, Minister J. Adamsons participates in the "LA" day in Pope.

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